



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

SCOTT G. ALVAREZ
GENERAL COUNSEL

January 28, 2016

Luigi L. De Ghenghi, Esq.
Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, New York 10017

Dear Mr. De Ghenghi:

This letter responds to your request for confirmation that Royal Bank of Scotland Group plc (“RBS”), Edinburgh, Scotland, would no longer be deemed to control Citizens Financial Group, Inc. (“CFG”), Providence, Rhode Island, for purposes of the Bank Holding Company Act, as amended (“BHC Act”), in light of RBS’s sale of its entire equity interest in CFG (the “Final Sale”) and the termination of its director representation at CFG and CFG’s subsidiary banks on November 3, 2015, and the winding down and eventual termination of transition services and other limited ongoing business relationships with CFG.

RBS is a foreign banking and financial services company and the top-tier holding company of Royal Bank of Scotland plc, Edinburgh, Scotland.¹ Royal Bank of Scotland plc owns RBSG International Holdings Limited, Edinburgh, Scotland, which in turn had an ownership interest in CFG prior to the Final Sale. CFG, a financial holding company, is the parent of Citizens Bank, N.A., Providence, Rhode Island, and Citizens Bank of Pennsylvania, Philadelphia, Pennsylvania. CFG became a subsidiary of RBS in 1988.

During the 2007-2009 global financial crisis, the government of the United Kingdom (“U.K. government”) took measures to recapitalize and stabilize RBS. In connection with these measures, the U.K. government and RBS were required to submit a restructuring plan for RBS to the European Commission. The most recent version of this plan included a commitment from RBS to sell all of its shares of CFG by December 31, 2016.²

¹ Royal Bank of Scotland plc operates a branch in Stamford, Connecticut, and representative offices in Chicago, Illinois and New York, New York.

² See Commission Decision No. 38304/2014, United Kingdom Amendment to the restructuring plan of Royal Bank of Scotland, 2014 O.J. (C 024) 20.

RBS began divesting its equity ownership in CFG through an initial public offering (“IPO”) in September 2014. On November 3, 2015, RBS sold all of the remaining CFG voting shares that RBS owned. As a result, RBS does not own, control, or hold with power to vote any voting securities or other equity instruments of CFG. RBS holds \$1.25 billion of subordinated debt securities issued by CFG, which represents approximately 54 percent of CFG’s outstanding subordinated debt.³

Under a separation and shareholder agreement (“Shareholder Agreement”) between RBS and CFG, the Final Sale terminated RBS’s right to appoint a director representative and nonvoting observer to CFG’s board of directors and the boards of directors of CFG’s subsidiary banks, and terminated contractual rights that provided RBS the ability to veto certain of CFG’s major policies and decisions.⁴ As a result, RBS’s representative on the boards of directors of CFG and its subsidiary banks has resigned. There are no director or employee interlocks between RBS, on the one hand, and CFG or its subsidiary banks, on the other.

RBS has current business relationships with CFG and CFG’s affiliates, including interest rate swaps, swap and cap agreements, foreign exchange agreements, service and referral arrangements, and office sharing arrangements. RBS represents that these relationships are non-exclusive, ordinary course transactions that were entered into on an arms-length basis and on market terms, are terminable at will by either party, and do not provide RBS with the ability or incentive to exercise a controlling influence over CFG. RBS also represents that these relationships are *de minimis* relative to the size of each organization’s operations, accounting for only █ percent and less than █ percent of CFG’s and RBS’s gross revenues, respectively, for the previous four quarters ending

³ The indenture agreement governing the subordinated debt securities grants RBS limited rights relating to the receipt and administration of payments under the subordinated debt securities. The indenture agreement does not contain any covenants that substantially limit the discretion of CFG’s management over major policies and decisions or grant RBS any rights that would allow it to exert a controlling influence over CFG.

⁴ Under the Shareholder Agreement, the Final Sale terminated RBS’s right to require its consent to making material changes to the scope of CFG’s business; related party transactions; any merger, consolidation or similar transaction; purchases or sales of assets above specified amounts; amendments to CFG’s funding and liquidity metrics; significant joint ventures; stock issuances; and the commencement of a liquidation, dissolution, voluntary bankruptcy, or similar proceeding.

June 30, 2015. RBS has committed that it will neither engage in any new business relationships nor expand any existing business relationships with CFG such that (i) CFG's gross revenues attributable to those business relationships would exceed 2 percent of CFG's gross revenues on a consolidated basis, or (ii) RBS's gross revenues attributable to those business relationships would exceed 0.2 percent of RBS's gross revenues on a consolidated basis, in each case as calculated based on the rolling average of the prior four quarters.

RBS and CFG also have entered into several agreements to facilitate an orderly separation of the two companies during the divestiture period. To ensure continuity of their respective business operations, RBS and CFG have agreed to provide each other with temporary transitional services that do not involve either party's core banking operations. The transitional services have also facilitated RBS's compliance with its commitment to the European Commission to divest CFG in a way that minimizes significant disruption to either organization's operations. These transitional services relate to information technology, human resources, back office operations, web services, trading services, and risk modeling. The transitional services generally will terminate by December 31, 2016.⁵ RBS represents that the transitional services were negotiated on an arms-length basis and on market terms, and are typical in situations involving the divestiture of a subsidiary. RBS represents that the majority of these transitional services have already been replaced with internal resources or arrangements with other service providers. RBS also represents that CFG expects to pay approximately [REDACTED] for the transitional services provided by RBS from the date of the IPO until the termination of the services, which represents less than 1 percent of CFG's annual expenditures on services provided by third party vendors and less than 1 percent of RBS's gross annual revenues.⁶

CFG currently uses certain key RBS trademarks, including the RBS "Daisywheel" logo. Under a trademark license agreement ("Trademark Agreement"), CFG has the right to continue to use the trademarks in a manner consistent with CFG's prior use. Other than customary restrictions on usages that could degrade the value of the trademarks, RBS may not alter or restrict CFG's usage of the trademarks in any way for the five-year term of the Trademark Agreement.⁷ Upon termination of the Trademark Agreement, CFG must operate without using the trademarks. CFG estimates that an

⁵ One [REDACTED] service provided by CFG to RBS will be terminated by [REDACTED].

⁶ RBS represents that it will pay approximately [REDACTED] to CFG in 2016 in consideration for transition services provided by CFG.

⁷ There is a maximum time period of ten years if the parties agree to an extension. However, the fee arrangement under the trademark license agreement is structured to induce CFG to discontinue its use of RBS's trademarks after the initial five-year period.

immediate, firmwide rebranding would cost between [REDACTED] and [REDACTED]. The agreement gives CFG time to develop and implement an alternative branding strategy in a more deliberate and cost-efficient manner. In addition, the Trademark Agreement permits CFG to use the trademarks only within the United States, where CFG's operations are solely located and where RBS has exited the retail banking market. Although RBS and CFG both currently use the same "Daisywheel" logo, the logo neither contains nor includes the name of either party, and the parties each use different color schemes in their branding.

For purposes of the BHC Act, a company has control over another company if the first company (i) directly or indirectly or acting through one or more other persons owns, controls, or has power to vote 25 percent or more of any class of voting securities of the other company; (ii) controls in any manner the election of a majority of the directors of the other company; or (iii) directly or indirectly exercises a controlling influence over the management or policies of the other company.⁸ In addition, the Board's Regulation Y sets forth a set of rebuttable presumptions of control.⁹ The BHC Act and the Board's Regulation Y presume that any company that directly or indirectly owns, controls, or has the power to vote less than 5 percent of any class of voting securities of a bank or other company does not control the bank or other company.¹⁰

In determining whether a company has the power to exercise a controlling influence over another company, the Board typically has considered a number of factors, including the size and structure of the company's voting and total equity investment; the company's rights to director, employee and other representation and committee service; any management, employee or director interlocks between the companies; any covenants or other agreements that allow the first company to influence or restrict management decisions of the other company; the nature and scope of the business relationships between the companies; and other indicia of the ability or incentive to exercise a controlling influence.¹¹

The Board previously has found that a company that controlled another company for a significant period of time may be able to exert a controlling influence over the company even after a substantial divestiture.¹² As a result, the Board has generally

⁸ 12 U.S.C. § 1841(a)(2); 12 CFR 225.2(e).

⁹ See 12 CFR 225.31(d).

¹⁰ 12 U.S.C. § 1841(a)(3); 12 CFR 225.31(e).

¹¹ See Policy Statement on equity investments in banks and bank holding companies (September 22, 2008), available at www.federalreserve.gov/newsevents/press/bcreg/20080922c.htm.

¹² See, e.g., C.I.T. Financial Corporation, 65 Federal Reserve Bulletin 369 (1979); 65 Federal Reserve Bulletin 440; Letter from the Board to Anne R. Williams, Esq., Steptoe & Johnson, dated June 4, 1985.

applied a stricter standard for determining non-control in divestiture cases than the standard applied when a company seeks to establish that a de novo investment in another company is non-controlling. Thus, in determining whether a reduction in ownership is effective to terminate an existing control relationship, the Board has placed significant weight on the size of any voting investment retained by the divesting company and the ongoing relationships between the divesting company and the company being divested.¹³ The Board has paid particular attention to the size and qualitative importance of the business relationships to each counterparty, and whether the business relationships are on market terms, non-exclusive, and terminable without penalty by the banking organization.¹⁴

RBS does not own, control, or hold with power to vote any voting securities or other equity instrument of CFG. In addition, RBS does not have any director representation on the boards of directors of, or any director or employee interlocks with CFG or its subsidiary banks. RBS has committed that it will retain only [REDACTED] of the subordinated debt beyond [REDACTED], which would represent less than 2 percent of CFG's total equity. Under these circumstances, RBS does not trigger any of the presumptions of control in the BHC Act or Regulation Y with respect to CFG.

As measured against each party's gross revenues, the business relationships between RBS and CFG are quantitatively limited. The relationships are also qualitatively nonmaterial, as none of them are core to either institution's operations. Further, the business relationships were entered into on an arms-length basis and on market terms, and are terminable at will and substitutable by either party. Finally, RBS has committed not to engage in any new material business relationships with CFG or materially expand the scope of existing business relationships with CFG.

Although important to facilitating an orderly separation of RBS and CFG, the transitional services are quantitatively limited in size and scope, and do not relate to either party's core operations. These transitional services are temporary and will be, or have already been, replaced with internal resources or arrangements with other service providers. In addition, under the Trademark Agreement, RBS cannot threaten CFG's continuity of operations or cause CFG to immediately incur significant rebranding costs. Moreover, the shared use of the "Daisywheel" logo in each firm's unique branding scheme is unlikely to cause undue confusion among their respective retail customers. Consequently, taken individually and as a whole, the business relationships and

¹³ Id.; See also Letter from Scott G. Alvarez, General Counsel of the Board, to Richard W. Decker, Jr., Belvedere Capital Partners II, LLC, dated April 5, 2010.

¹⁴ See Letter from Robert deV. Frierson, Deputy Secretary of the Board, to Mark Menting, Esq., Sullivan & Cromwell, LLP, dated February 14, 2012.

transitional services between RBS and CFG do not appear to provide RBS with the ability to exercise a controlling influence over CFG.

Based on all the facts of record in this case, and specifically conditioned on compliance with all the representations and commitments made in connection with your request, Legal Division and Banking Supervision and Regulation staff would not recommend that the Board find RBS to control CFG for purposes of the BHC Act following the Final Sale, in light of the continued winding down and eventual termination of the transition services and certain business relationships, and the limited continuing business relationships that will exist between RBS and CFG.

This opinion is based on all the facts of record, including all the representations and commitments made by or on behalf of RBS, whether noted in this letter or otherwise contained in correspondence or discussions with the Board or the Federal Reserve Bank of Boston. Any change in the terms or circumstances of the transaction may result in a different opinion and should be reported immediately to Board and Reserve Bank staff. If you have any questions about this matter, please contact Scott Tkacz, Counsel (202-452-2744), or Adam Cohen, Counsel (202-912-4658), of the Board's Legal Division.

Sincerely,

/s/ Scott Alvarez
General Counsel