

Fitch Affirms RBS Citizens Financial Group's Ratings; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has affirmed the long- and short-term Issuer Default Ratings (IDRs) of RBS Citizen's Financial Group, Inc. (CFG) and its subsidiaries at 'A-' and 'F1', respectively. The Rating Outlook is Stable. In addition, Fitch has also affirmed CFG's Viability Rating (VR) at 'bbb+'. A complete list of rating actions follows at the end of this release.

The affirmation of CFG's ratings follows Fitch's UK Bank peer review and the affirmation of Royal Bank of Scotland Group plc's (RBSG) ratings. (See separate press release dated Sept. 19, 2013 for additional details.)

KEY RATING DRIVERSAs a wholly owned subsidiary of RBSG, CFG's long- and short-term IDRs are linked to those of its parent company. Fitch recognizes there could be changes regarding RBSG's future ownership of CFG but continues to regard CFG as 'strategically important' to RBSG. Thus CFG's 'A-' IDR is one notch below RBS' IDR of 'A'. This is also reflected in CFG's Support Rating of '1', which articulates Fitch's belief that there is a high probability that RBSG would support CFG if necessary.

CFG's 'bbb+' VR, which embodies the standalone assessment of CFG, reflects the company's solid capital strength and stable asset quality. Further, the rating and Outlook are supported by CFG's strong liquidity profile and deposit mix. These strengths are tempered by CFG's below peer profitability and relatively high home equity exposure.

Fitch considers CFG's capital levels to be solid and managed conservatively on both a consolidated level and at the respective banks. CFG and each of its banking subsidiaries remain well capitalized with tangible common equity ratio totaled 11.44% at the end of second quarter. Liquidity levels are also solid as CFG is primarily deposit funded with minimal reliance on wholesale borrowings or RBSG.

During the second quarter of 2013, CFG recorded a \$4.4 billion pre-tax goodwill impairment charge which resulted in a \$3.7 billion net loss for the six months ended June 30, 2013. The impairment charge was recorded in its retail banking reporting unit, and is a result of the prolonged delay in the full recovery of the U.S. economy and the impact of that delay on earnings estimates. The non-cash charge had minimal impact on regulatory capital ratios, Fitch Core Capital and liquidity. As such, Fitch does not view the goodwill

impairment has adversely affected CFG's credit profile.

Fitch expects earnings performance to remain challenged due to sluggish loan growth and the prolonged effects of an extended low interest rate environment. Excluding the large impairment for goodwill, net income improved slightly for the six months ended June 30, 2013 to \$358 million compared to \$333 million in the same period last year.

Fitch also has general industry concerns surrounding home equity lines of credit (HELOCs) as articulated in the Fitch special report 'U.S. Banks - Home Equity Reset Risk Hitting the Reset Button in 2014' dated April 29, 2013. Given CFG's relatively high exposure with HELOCs totaling 20% of total loans outstanding as of year-end 2012, Fitch believes CFG would be more adversely affected if home equity lines of credit resets occur in a less benign housing market resulting in weaker asset quality than currently experienced.

KEY RATING SENSITIVITIESAs previously noted, CFG's IDRs are linked to those of its parent. As such, CFG's IDRs will likely be affected by any changes to the ratings of RBSG itself. This could include, but is not limited to, changes to an IDR due to the re-evaluation of sovereign support as detailed in the Fitch special report 'Bank Support: Likely Rating Paths' dated Sept. 11, 2013. Under Fitch's 'higher-of' approach in assigning an IDR, a one or more notch downgrade of the parent's IDR would likely result in CFG's VR becoming the anchor rating going forward, provided the potential uplift of the subsidiary's VR from the parent's long-term IDR is limited to a maximum of three notches. Fitch is also mindful of RBSG's plans to float up to 25% of CFG shares. The stated plan does not in and of itself alter Fitch's view that CFG is a 'strategically important' subsidiary. However, Fitch will consider developments towards a partial public offering and could affect Fitch's view of the rating linkage.

Fitch considers CFG's VRs to be solidly situated at their current levels. Nonetheless, positive rating momentum could occur should CFG improve its profitability levels commensurate to those of higher rated regional banks while reducing its home equity exposure. Conversely, factors that could lead to negative pressures on the VR include a reversal of improving credit quality and regulatory capital trends or increased growth in higher risk commercial lending.

KEY RATING DRIVERS AND SENSITIVITIES - SUPPORT RATINGCRG's

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support-driven IDR has historically been notched one notch below at 'A-' reflecting Fitch's view that CFG is strategically important to RBSG. In the event Fitch's views CFG is no longer strategically important to RBSG, its support rating could be downgraded. If this were to occur, it would likely have no impact on the company's VR but may result in a downgrade of the IDR.

Subordinated debt issued by CFG is notched down from its VR in accordance with Fitch's assessment of each instrument's respective nonperformance and relative loss severity risk profiles. Ratings are all primarily sensitive to any changes in the VRs of CFG.

Fitch has affirmed the following ratings:

RBS Citizens Financial Group, Inc.--Long-term IDR at 'A-'; Outlook Stable;--Short-term IDR at 'F1';--Viability rating at 'bbb+';--Subordinated debt at 'BBB';--Support rating at '1'.

RBS Citizens, NA--Long-term IDR at 'A-'; Outlook Stable;--Short-term IDR at 'F1';--Viability rating at 'bbb+';--Support rating at '1';--Long-term deposits at 'A';--Senior Unsecured at 'A-';--Short-term deposits at 'F1'.

Citizens Bank of Pennsylvania--Long-term IDR at 'A-'; Outlook Stable;--Short-term IDR at 'F1';--Viability rating at 'bbb+';--Support rating at '1';--Long-term deposits at 'A';--Short-term deposits at 'F1'.

Additional information is available at www.fitchratings.com.

Applicable Criteria and Related Research:--'Global Financial Institutions Rating Criteria' (Aug. 15, 2012);--'U.S. Banks - Home Equity Reset Risk Hitting the Reset Button in 2014' (April 29, 2013);--'Bank Support: Likely Rating Paths' (Sept. 11, 2013);--'Rating FI Subsidiaries and Holding Companies' (Aug. 10, 2012).

Applicable Criteria and Related Research: Global Financial Institutions Rating Criteria http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686181
U.S. Banks -- Home Equity Reset Risk Hitting the Reset Button in 2014
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=706915
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