

CITIZENS FINANCIAL GROUP INC/RI  
Form 10-Q  
August 07, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended  
June 30, 2015

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From  
(Not Applicable)  
Commission File Number 001-36636  
CITIZENS FINANCIAL GROUP, INC.  
(Exact name of the registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)  
One Citizens Plaza, Providence, RI 02903  
(Address of principal executive offices, including zip code)

05-0412693  
(I.R.S. Employer  
Identification Number)

(401) 456-7000  
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer   
Non-accelerated filer (Do not check if a smaller reporting company)  Smaller reporting company

Edgar Filing: CITIZENS FINANCIAL GROUP INC/RI - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

There were 527,534,073 shares of Registrant's common stock (\$0.01 par value) outstanding on August 3, 2015.

---

Table of Contents

	Page
<u>Part I. Financial Information</u>	<u>4</u>
<u>Item 1. Financial Statements</u>	<u>4</u>
<u>Consolidated Balance Sheets as of June 30, 2015 (unaudited) and December 31, 2014 (unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Operations (unaudited) for the Three and Six Months Ended June 30, 2015 and 2014</u>	<u>6</u>
<u>Consolidated Statements of Comprehensive Income (unaudited) for the Three and Six Months Ended June 30, 2015 and 2014</u>	<u>7</u>
<u>Consolidated Statements of Changes in Stockholders' Equity (unaudited) for the Six Months Ended June 30, 2015 and 2014</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows (unaudited) for the Six Months Ended June 30, 2015 and 2014</u>	<u>9</u>
<u>Notes to the Consolidated Financial Statements (unaudited)</u>	<u>10</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>62</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>125</u>
<u>Item 4. Controls and Procedures</u>	<u>125</u>
<u>Part II. Other Information</u>	<u>126</u>
<u>Item 1. Legal Proceedings</u>	<u>126</u>
<u>Item 1A. Risk Factors</u>	<u>126</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>126</u>
<u>Item 6. Exhibits</u>	<u>126</u>
<u>Signature</u>	<u>128</u>

## CITIZENS FINANCIAL GROUP, INC.

## GLOSSARY OF ACRONYMS AND TERMS

The following listing provides a comprehensive reference of common acronyms and terms we regularly use in our financial reporting:

AFS	Available for Sale
ALLL	Allowance for Loan and Lease Losses
AOCI	Accumulated Other Comprehensive Income
ASU	Accounting Standards Update
ATM	Automatic Teller Machine
BHC	Bank Holding Company
bps	Basis Points
C&I	Commercial and Industrial
Capital Plan Rule	Federal Reserve's Regulation Y Capital Plan Rule
CBNA	Citizens Bank, N.A.
CBPA	Citizens Bank of Pennsylvania
CCAR	Comprehensive Capital Analysis and Review
CCO	Chief Credit Officer
CET1	Common Equity Tier 1
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Citizens or CFG or the Company	Citizens Financial Group, Inc. and its Subsidiaries
CLTV	Combined Loan-to-Value
CMO	Collateralized Mortgage Obligation
CRE	Commercial Real Estate
CRO	Chief Risk Officer
DFAST	Dodd-Frank Act Stress Test
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EPS	Earnings Per Share
ESPP	Employee Stock Purchase Program
ERISA	Employee Retirement Income Security Act of 1974
Fannie Mae (FNMA)	Federal National Mortgage Association
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation (credit rating)
FRB	Federal Reserve Bank
FRBG	Federal Reserve Board of Governors
Freddie Mac (FHLMC)	Federal Home Loan Mortgage Corporation
FTP	Funds Transfer Pricing
GAAP	Accounting Principles Generally Accepted in the United States of America
GDP	Gross Domestic Product
Ginnie Mae (GNMA)	Government National Mortgage Association
HELOC	Home Equity Line of Credit
HTM	Held To Maturity
IPO	Initial Public Offering
LCR	Liquidity Coverage Ratio



CITIZENS FINANCIAL GROUP, INC.

LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LIHTC	Low Income Housing Tax Credit
LTV	Loan-to-Value
MBS	Mortgage-Backed Securities
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MSR	Mortgage Servicing Right
NSFR	Net Stable Funding Ratio
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income
OIS	Overnight Index Swap
OTC	Over the Counter
PD	Probability of Default
peers or peer banks or peer regional banks	BB&T, Comerica, Fifth Third, KeyCorp, M&T, PNC, Regions, SunTrust and U.S. Bancorp
RBS	The Royal Bank of Scotland Group plc or any of its subsidiaries
ROTCE	Return on Average Tangible Common Equity
RPA	Risk Participation Agreement
RWA	Risk-weighted Assets
SBO	Serviced by Others loan portfolio
SVaR	Stress Value-at-Risk
TDR	Troubled Debt Restructuring
VaR	Value-at-Risk

## CITIZENS FINANCIAL GROUP, INC.

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

	Page
<u>Consolidated Balance Sheets as of June 30, 2015 (unaudited) and December 31, 2014 (unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Operations (unaudited) for the Three and Six Months Ended June 30, 2015 and 2014</u>	<u>6</u>
<u>Consolidated Statements of Comprehensive Income (unaudited) for the Three and Six Months Ended June 30, 2015 and 2014</u>	<u>7</u>
<u>Consolidated Statements of Changes in Stockholders' Equity (unaudited) for the Six Months Ended June 30, 2015 and 2014</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows (unaudited) for the Six Months Ended June 30, 2015 and 2014</u>	<u>9</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>10</u>
<u>Note 1 - Basis of Presentation</u>	<u>10</u>
<u>Note 2 - Securities</u>	<u>11</u>
<u>Note 3 - Loans and Leases</u>	<u>16</u>
<u>Note 4 - Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk</u>	<u>17</u>
<u>Note 5 - Variable Interest Entities</u>	<u>31</u>
<u>Note 6 - Goodwill</u>	<u>32</u>
<u>Note 7 - Mortgage Banking</u>	<u>32</u>
<u>Note 8 - Borrowed Funds</u>	<u>34</u>
<u>Note 9 - Stockholders' Equity</u>	<u>35</u>
<u>Note 10 - Employee Benefits</u>	<u>36</u>
<u>Note 11 - Income Taxes</u>	<u>37</u>
<u>Note 12 - Derivatives</u>	<u>38</u>
<u>Note 13 - Commitments and Contingencies</u>	<u>41</u>
<u>Note 14 - Related Party Transactions</u>	<u>44</u>
<u>Note 15 - Fair Value Measurements</u>	<u>45</u>
<u>Note 16 - Regulatory Matters</u>	<u>52</u>
<u>Note 17 - Exit Costs and Restructuring Reserves</u>	<u>54</u>
<u>Note 18 - Reclassifications Out of Accumulated Other Comprehensive Income</u>	<u>54</u>
<u>Note 19 - Business Segments</u>	<u>55</u>
<u>Note 20 - Share-Based Compensation</u>	<u>58</u>
<u>Note 21 - Earnings Per Share</u>	<u>60</u>
<u>Note 22 - Other Operating Expense</u>	<u>61</u>
<u>Note 23 - Subsequent Events</u>	<u>61</u>

## CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data)	June 30, 2015	December 31, 2014
<b>ASSETS:</b>		
Cash and due from banks	\$961	\$1,171
Interest-bearing cash and due from banks	1,908	2,105
Interest-bearing deposits in banks	186	370
Securities available for sale, at fair value	18,662	18,656
Securities held to maturity (fair value of \$5,611 and \$5,193, respectively)	5,567	5,148
Other investment securities	866	872
Loans held for sale, at fair value	397	256
Other loans held for sale	300	25
Loans and leases	96,538	93,410
Less: Allowance for loan and lease losses	1,201	1,195
Net loans and leases	95,337	92,215
Derivative assets (related party balances of \$36 and \$1, respectively)	665	629
Premises and equipment, net	580	595
Bank-owned life insurance	1,543	1,527
Goodwill	6,876	6,876
Due from broker	939	—
Other assets (related party balances of \$5 and \$7, respectively)	2,464	2,412
<b>TOTAL ASSETS</b>	<b>\$137,251</b>	<b>\$132,857</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
<b>LIABILITIES:</b>		
Deposits:		
Noninterest-bearing	\$26,678	\$26,086
Interest-bearing (related party balances of \$5 and \$5, respectively)	73,937	69,621
Total deposits	100,615	95,707
Federal funds purchased and securities sold under agreements to repurchase	3,784	4,276
Other short-term borrowed funds	6,762	6,253
Derivative liabilities (related party balances of \$300 and \$387, respectively)	556	612
Deferred taxes, net	558	493
Long-term borrowed funds (related party balances of \$2,000 and \$2,000, respectively)	3,890	4,642
Other liabilities (related party balances of \$29 and \$30, respectively)	1,500	1,606
<b>TOTAL LIABILITIES</b>	<b>\$117,665</b>	<b>\$113,589</b>
Contingencies (refer to Note 13)		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$25.00 par value, authorized 100,000,000 shares:		
Series A, non-cumulative perpetual, \$25.00 par value (liquidation preference \$1,000), 250,000 shares authorized and issued net of issuance costs and related premium at June 30, 2015, and no shares outstanding at December 31, 2014	\$247	\$—
Common stock:		
\$0.01 par value, 1,000,000,000 shares authorized, 562,838,179 shares issued and 537,149,717 shares outstanding at June 30, 2015 and 1,000,000,000 shares authorized, 560,262,638 shares issued and 545,884,519 shares outstanding at December 31, 2014		6
Additional paid-in capital	18,714	18,676
Retained earnings	1,585	1,294



Edgar Filing: CITIZENS FINANCIAL GROUP INC/RI - Form 10-Q

Treasury Stock, at cost, 25,688,462 and 14,378,119 shares at June 30, 2015 and December 31, 2014, respectively	(607	)	(336	)
Accumulated other comprehensive loss	(359	)	(372	)
TOTAL STOCKHOLDERS' EQUITY	\$19,586		\$19,268	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$137,251		\$132,857	

The accompanying Notes to unaudited interim Consolidated Financial Statements are an integral part of these statements.

## CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in millions, except share and per-share data)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
<b>INTEREST INCOME:</b>				
Interest and fees on loans and leases (related party balances of \$17, \$18, \$35 and \$36, respectively)	\$790	\$751	\$1,569	\$1,481
Interest and fees on loans held for sale, at fair value	2	1	3	2
Interest and fees on other loans held for sale	4	10	6	22
Investment securities	155	154	314	303
Interest-bearing deposits in banks	1	1	2	2
Total interest income	952	917	1,894	1,810
<b>INTEREST EXPENSE:</b>				
Deposits	60	34	112	67
Deposits held for sale	—	2	—	4
Federal funds purchased and securities sold under agreements to repurchase (related party balances of (\$1), \$0, \$4 and \$13, respectively)	2	1	9	16
Other short-term borrowed funds (related party balances of \$15, \$28, \$25 and \$44, respectively)	19	30	34	49
Long-term borrowed funds (related party balances of \$20, \$13, \$40 and \$25, respectively)	31	17	63	33
Total interest expense	112	84	218	169
Net interest income	840	833	1,676	1,641
Provision for credit losses	77	49	135	170
Net interest income after provision for credit losses	763	784	1,541	1,471
<b>NONINTEREST INCOME:</b>				
Service charges and fees (related party balances of \$1, \$1, \$2 and \$3, respectively)	139	147	274	286
Card fees	60	61	112	117
Trust and investment services fees	41	42	77	81
Mortgage banking fees	30	14	63	34
Capital markets fees (related party balances of \$3, \$2, \$6 and \$5, respectively)	30	26	52	44
Foreign exchange and trade finance fees (related party balances of (\$19), (\$1), \$16 and (\$7), respectively)	22	22	45	44
Bank-owned life insurance income	14	12	26	23
Securities gains, net	9	—	17	25
Net impairment losses recognized in earnings	(2)	(2)	(3)	(6)
Other income (related party balances of \$18, (\$82), (\$50) and (\$135), respectively)	17	318	44	350
Total noninterest income	360	640	707	998
<b>NONINTEREST EXPENSE:</b>				
Salaries and employee benefits	411	467	830	872
Outside services (related party balances of \$3, \$8, \$5 and \$16, respectively)	99	125	178	208
Occupancy (related party balances of \$1, \$0, \$1 and \$0, respectively)	90	87	170	168

Edgar Filing: CITIZENS FINANCIAL GROUP INC/RI - Form 10-Q

Equipment expense	65	65	128	129
Amortization of software	37	33	73	64
Other operating expense	139	171	272	317
Total noninterest expense	841	948	1,651	1,758
Income before income tax expense	282	476	597	711
Income tax expense	92	163	198	232
NET INCOME	\$190	\$313	\$399	\$479
Net income available to common stockholders	\$190	\$313	\$399	\$479
Weighted-average common shares outstanding:				
Basic	537,729,248	59,998,324	541,986,653	59,998,324
Diluted	539,909,366	59,998,324	544,804,268	59,998,324
Per common share information:				
Basic earnings	\$0.35	\$0.56	\$0.74	\$0.86
Diluted earnings	0.35	0.56	0.73	0.86
Dividends declared and paid	0.10	0.61	0.20	0.66

The accompanying Notes to unaudited interim Consolidated Financial Statements are an integral part of these statements.

## CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in millions)	Three Months Ended		Six Months Ended		
	June 30,	June 30,	June 30,	June 30,	
	2015	2014	2015	2014	
Net income	\$190	\$313	\$399	\$479	
Other comprehensive income (loss):					
Net unrealized derivative instrument gains (losses) arising during the periods, net of income taxes of (\$3), \$36, \$36 and \$70, respectively	(5	)61	60	120	
Reclassification adjustment for net derivative (losses) gains included in net income, net of income taxes of (\$1), \$3, (\$2) and \$7, respectively	(2	)6	(4	)13	
Net unrealized securities available for sale (losses) gains arising during the periods, net of income taxes of (\$66), \$68, (\$12) and \$109, respectively	(110	)117	(20	)188	
Other-than-temporary impairment not recognized in earnings on securities, net of income taxes of \$0, (\$1), (\$11) and (\$12), respectively	1	(2	) (18	) (21	)
Reclassification of net securities gains to net income, net of income taxes of (\$2), \$0, (\$5) and (\$7), respectively	(5	)2	(9	) (12	)
Defined benefit pension plans:					
Amortization of actuarial loss, net of income taxes \$2, \$0, \$3 and \$1, respectively	2	1	4	2	
Total other comprehensive income (loss), net of income taxes	(119	)185	13	290	
Total comprehensive income	\$71	\$498	\$412	\$769	

The accompanying Notes to unaudited interim Consolidated Financial Statements are an integral part of these statements.

## CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(in millions)	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount					
Balance at January 1, 2014	—	\$—	560	\$6	\$18,603	\$1,235	\$—	(\$648)	\$19,196
Dividends to RBS	—	—	—	—	—	(35)	—	—	(35)
Dividends to RBS — exchange transactions	—	—	—	—	—	(333)	—	—	(333)
Total comprehensive income:									
Net income	—	—	—	—	—	479	—	—	479
Other comprehensive income	—	—	—	—	—	—	—	290	290
Total comprehensive income	—	—	—	—	—	479	—	290	769
Balance at June 30, 2014	—	\$—	560	\$6	\$18,603	\$1,346	\$—	(\$358)	\$19,597
Balance at January 1, 2015	—	\$—	546	\$6	\$18,676	\$1,294	(\$336)	(\$372)	\$19,268
Dividends to common stockholders	—	—	—	—	—	(48)	—	—	(48)
Dividends to RBS	—	—	—	—	—	(60)	—	—	(60)
Issuance of preferred stock	—	247	—	—	—	—	—	—	247
Treasury stock purchased	—	—	(10)	—	—	—	(250)	—	(250)
Share-based compensation plans	—	—	1	—	34	—	(21)	—	13
Employee stock purchase plan shares issued	—	—	—	—	4	—	—	—	4
Total comprehensive income:									
Net income	—	—	—	—	—	399	—	—	399
Other comprehensive income	—	—	—	—	—	—	—	13	13
Total comprehensive income	—	—	—	—	—	399	—	13	412
Balance at June 30, 2015	—	\$247	537	\$6	\$18,714	\$1,585	(\$607)	(\$359)	\$19,586

The accompanying Notes to unaudited interim Consolidated Financial Statements are an integral part of these statements.

## CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Six Months Ended June 30,	
	2015	2014
<b>OPERATING ACTIVITIES</b>		
Net income	\$399	\$479
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	135	170
Originations of mortgage loans held for sale	(1,182)	(684)
Proceeds from sales of mortgage loans held for sale	1,111	688
Purchases of commercial loans held for sale	(632)	—
Proceeds from sales of commercial loans held for sale	594	—
Amortization of terminated cash flow hedges (related party balances of \$9 and \$12, respectively)	9	24
Depreciation, amortization and accretion	234	196
Mortgage servicing rights valuation recovery	(7)	(3)
Securities impairment	3	6
Deferred income taxes	56	36
Share-based compensation	15	19
Loss on disposal/impairment of premises and equipment	—	11
Loss on sale of other branch assets held for sale	—	9
Gain on sales of:		
Debt securities available for sale	(17)	(25)
Marketable equity securities available for sale	(3)	—
Other loans held for sale	—	(11)
Deposits held for sale	—	(286)
(Increase) decrease in other assets (related party balances of (\$34) and \$47, respectively)	(138)	57
(Decrease) increase in other liabilities (related party balances of (\$88) and (\$147), respectively)	(62)	335
Net cash provided by operating activities	515	1,021
<b>INVESTING ACTIVITIES</b>		
Investment securities:		
Purchases of securities available for sale	(4,089)	(4,318)
Proceeds from maturities and paydowns of securities available for sale	1,804	1,421
Proceeds from sales of securities available for sale	1,251	711
Purchases of other investment securities	(14)	(68)
Proceeds from sales of other investment securities	20	55
Purchases of securities held to maturity	(811)	(1,174)
Proceeds from maturities and paydowns of securities held to maturity	394	120
Net decrease (increase) in interest-bearing deposits in banks	184	(76)
Net increase in loans and leases	(3,573)	(2,171)
Net increase in bank-owned life insurance	(16)	(22)
Premises and equipment:		
Purchases	(43)	(37)
Proceeds from sales	15	29
Capitalization of software	(92)	(80)
Net cash used in investing activities	(4,970)	(5,610)
<b>FINANCING ACTIVITIES</b>		

Edgar Filing: CITIZENS FINANCIAL GROUP INC/RI - Form 10-Q

Net increase (decrease) in deposits	4,908	(238	)
Net (decrease) increase in federal funds purchased and securities sold under agreements to repurchase	(492	)	2,016
Net (decrease) increase in other short-term borrowed funds	(251	)	5,450
Proceeds from issuance of long-term borrowed funds (related party balances of \$0 and \$333, respectively)	—		333
Repayments of long-term borrowed funds	(6	)	(5
Treasury stock purchased	(250	)	—
Net proceeds from issuance of preferred stock	247		—
Dividends declared and paid to common stockholders	(48	)	—
Dividends declared and paid to RBS	(60	)	(368
Net cash provided by financing activities	4,048		7,188
(Decrease) increase in cash and cash equivalents	(407	)	2,599
Cash and cash equivalents at beginning of period	3,276		2,757
Cash and cash equivalents at end of period	\$2,869		\$5,356

The accompanying Notes to unaudited interim Consolidated Financial Statements are an integral part of these statements.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

Basis of Presentation

The unaudited interim Consolidated Financial Statements, including the Notes thereto of Citizens Financial Group, Inc., have been prepared in accordance with GAAP interim reporting requirements, and therefore do not include all information and Notes included in the audited Consolidated Financial Statements in conformity with GAAP. These unaudited interim Consolidated Financial Statements and Notes thereto should be read in conjunction with the Company's audited Consolidated Financial Statements and accompanying Notes included in the Company's Form 10-K for the year ended December 31, 2014. The Company is an indirect subsidiary of The Royal Bank of Scotland Group plc. The Company's principal business activity is banking, conducted through its subsidiaries, Citizens Bank, N.A. and Citizens Bank of Pennsylvania.

The unaudited interim Consolidated Financial Statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results for interim periods are not necessarily indicative of results for a full year.

On August 22, 2014, the Company's Board of Directors declared a 165,582-for-1 stock split. Except for the amount of authorized shares and par value, all references to share and per share amounts in the unaudited interim Consolidated Financial Statements and accompanying Notes have been restated to reflect the stock split.

Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications had no effect on net income, total comprehensive income, total assets or total stockholders' equity as previously reported.

Recent Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-05 "Intangibles - Goodwill and Other - Internal Use Software" which will assist entities in evaluating the accounting for fees paid by a customer in a cloud computing arrangement. The ASU, which allows for early adoption, is effective for the Company beginning on January 1, 2016. Adoption of this guidance is not expected to have a material impact on the Company's unaudited interim Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-03 "Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs". This standard requires debt issuance costs to be presented in the consolidated balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The ASU, which allows for early adoption, is effective for the Company beginning on January 1, 2016. Adoption of this guidance is not expected to have a material impact on the Company's unaudited interim Consolidated Financial Statements.

In February 2015, the FASB issued ASU No. 2015-02 "Consolidation (Topic 810): Amendments to the Consolidation Analysis". This standard focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities such as limited partnerships, limited liability corporations, and securitization structures (e.g., collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). This new standard simplifies consolidation accounting by reducing the number of consolidation models. The ASU will be effective for the Company beginning on January 1, 2016. Early



adoption is permitted, including adoption in an interim period. The potential impact the adoption of this guidance will have to the Company's unaudited interim Consolidated Financial Statements is under review.

In January 2015, the FASB issued ASU No. 2015-01 "Income Statement: Extraordinary and Unusual Items." This ASU eliminates from GAAP the concept of extraordinary items. Accounting Standards Codification Subtopic 225-20 required that an entity separately classify, present, and disclose extraordinary events and transactions that were unusual in nature and infrequent in occurrence. This ASU, which allows for early adoption, is effective for the Company beginning on January 1, 2016. The adoption of this guidance is not expected to have a material impact on the Company's unaudited interim Consolidated Financial Statements.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2 - SECURITIES

The following table provides the major components of securities at amortized cost and fair value:

(in millions)	June 30, 2015				December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities Available for Sale</b>								
U.S. Treasury	\$30	\$—	\$—	\$30	\$15	\$—	\$—	\$15
State and political subdivisions	9	—	—	9	10	—	—	10
<b>Mortgage-backed securities:</b>								
Federal agencies and U.S. government sponsored entities	17,830	227	(56 )	18,001	17,683	301	(50 )	17,934
Other/non-agency	631	4	(30 )	605	703	4	(35 )	672
Total mortgage-backed securities	18,461	231	(86 )	18,606	18,386	305	(85 )	18,606
Total debt securities available for sale	18,500	231	(86 )	18,645	18,411	305	(85 )	18,631
Marketable equity securities	5	—	—	5	10	3	—	13
Other equity securities	12	—	—	12	12	—	—	12
Total equity securities available for sale	17	—	—	17	22	3	—	25
Total securities available for sale	\$18,517	\$231	(\$86 )	\$18,662	\$18,433	\$308	(\$85 )	\$18,656
<b>Securities Held to Maturity</b>								
<b>Mortgage-backed securities:</b>								
Federal agencies and U.S. government sponsored entities	\$4,253	\$28	(\$12 )	\$4,269	\$3,728	\$22	(\$31 )	\$3,719
Other/non-agency	1,314	28	—	1,342	1,420	54	—	1,474
Total securities held to maturity	\$5,567	\$56	(\$12 )	\$5,611	\$5,148	\$76	(\$31 )	\$5,193
<b>Other Investment Securities</b>								
Federal Reserve Bank stock	\$468	\$—	\$—	\$468	\$477	\$—	\$—	\$477
Federal Home Loan Bank stock	393	—	—	393	390	—	—	390
Venture capital and other investments	5	—	—	5	5	—	—	5
Total other investment securities	\$866	\$—	\$—	\$866	\$872	\$—	\$—	\$872

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has reviewed its securities portfolio for other-than-temporary impairments. The following table presents the net impairment losses (gains) recognized in earnings:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Other-than-temporary impairment:				
Total other-than-temporary impairment losses	(\$1 )	(\$5 )	(\$32 )	(\$39 )
Portions of loss (gains) recognized in other comprehensive income (before taxes)	(1 )	3	29	33
Net impairment losses recognized in earnings	(\$2 )	(\$2 )	(\$3 )	(\$6 )

The following tables summarize those securities whose fair values are below carrying values, segregated by those that have been in a continuous unrealized loss position for less than twelve months and those that have been in a continuous unrealized loss position for twelve months or longer:

(dollars in millions)	June 30, 2015								
	Less than 12 Months			12 Months or Longer			Total		
	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses
State and political subdivisions	1	\$9	\$—	—	\$—	\$—	1	\$9	\$—
Mortgage-backed securities:									
Federal agencies and U.S. government sponsored entities	109	5,222	(40 )	37	970	(28 )	146	6,192	(68 )
Other/non-agency	3	37	(1 )	19	398	(29 )	22	435	(30 )
Total mortgage-backed securities	112	5,259	(41 )	56	1,368	(57 )	168	6,627	(98 )
Total	113	\$5,268	(\$41 )	56	\$1,368	(\$57 )	169	\$6,636	(\$98 )

(dollars in millions)	December 31, 2014								
	Less than 12 Months			12 Months or Longer			Total		
	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses
State and political subdivisions	—	\$—	\$—	1	\$10	\$—	1	\$10	\$—
Mortgage-backed securities:									
Federal agencies and U.S. government	75	3,282	(24 )	52	1,766	(57 )	127	5,048	(81 )

sponsored entities										
Other/non-agency	6	80	(2	) 17	397	(33	) 23	477	(35	)
Total										
mortgage-backed securities	81	3,362	(26	) 69	2,163	(90	) 150	5,525	(116	)
Total	81	\$3,362	(\$26	) 70	\$2,173	(\$90	) 151	\$5,535	(\$116	)

For each debt security identified with an unrealized loss, the Company reviews the expected cash flows to determine if the impairment in value is temporary or other-than-temporary. If the Company has determined that the present value of the debt security's expected cash flows is less than its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. The amount of impairment loss that is recognized in current period earnings is dependent on the Company's intent to sell (or not sell) the debt security.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

If the Company intends to sell the impaired debt security, the impairment loss recognized in current period earnings equals the difference between the debt security's fair value and its amortized cost. If the Company does not intend to sell the impaired debt security, and it is not likely that the Company will be required to sell the impaired security, the credit-related impairment loss is recognized in current period earnings and equals the difference between the amortized cost of the debt security and the present value of the expected cash flows that have currently been projected.

In addition to these cash flow projections, several other characteristics of each debt security are reviewed when determining whether a credit loss exists and the period over which the debt security is expected to recover. These characteristics include: (1) the type of investment, (2) various market factors affecting the fair value of the security (e.g., interest rates, spread levels, liquidity in the sector, etc.), (3) the length and severity of impairment, and (4) the public credit rating of the instrument.

The Company estimates the portion of loss attributable to credit using a cash flow model. The inputs to this model include prepayment, default and loss severity assumptions that are based on industry research and observed data. The loss projections generated by the model are reviewed on a quarterly basis by a cross-functional governance committee. This governance committee determines whether security impairments are other-than-temporary based on this review.

The following table presents the cumulative credit related losses recognized in earnings on debt securities held by the Company:

(in millions)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Cumulative balance at beginning of period	\$62	\$59	\$62	\$56
Credit impairments recognized in earnings on securities that have been previously impaired	2	2	3	6
Reductions due to increases in cash flow expectations on impaired securities	(2	)(1	)(3	)(2
Cumulative balance at end of period	\$62	\$60	\$62	\$60

Cumulative credit losses recognized in earnings for impaired AFS debt securities held as of June 30, 2015 and 2014 were \$62 million and \$60 million, respectively. There were no credit losses recognized in earnings for the Company's HTM portfolio as of June 30, 2015 and 2014. For the three months ended June 30, 2015 and 2014, the Company recognized credit related other-than-temporary impairment losses in earnings of \$2 million related to non-agency MBS in the AFS portfolio. For the six months ended June 30, 2015 and 2014, the Company recognized credit related other-than-temporary impairment losses in earnings of \$3 million and \$6 million, respectively. There were no credit impaired debt securities sold during the three or six months ended June 30, 2015 and 2014, respectively. Reductions in credit losses due to increases in cash flow expectations were \$2 million and \$1 million for the three months ended June 30, 2015 and 2014, respectively, and \$3 million and \$2 million for the six months ended June 30, 2015 and 2014, respectively, and were presented in interest income from investment securities on the Consolidated Statements of Operations. The Company does not currently have the intent to sell these debt securities, and it is not likely that the Company will be required to sell these debt securities prior to the recovery of their amortized cost bases.

The Company has determined that credit losses are not expected to be incurred on the remaining agency and non-agency MBS identified with unrealized losses as of the current reporting date. The unrealized losses on these debt securities reflect the reduced liquidity in the MBS market and the increased risk spreads due to the uncertainty of the U.S. macroeconomic environment. Therefore, the Company has determined that these debt securities are not other-than-temporarily impaired because the Company does not currently have the intent to sell these debt securities,

and it is not likely that the Company will be required to sell these debt securities prior to the recovery of their amortized cost bases. Any subsequent increases in the valuation of impaired debt securities do not impact their recorded cost bases. As of June 30, 2015 and 2014, \$29 million and \$33 million, respectively, of pre-tax non-credit related losses were deferred in OCI.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost and fair value of debt securities at June 30, 2015 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without incurring penalties.

(in millions)	Distribution of Maturities				Total
	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	
Amortized Cost:					
Debt securities available for sale					
U.S. Treasury	\$30	\$—	\$—	\$—	\$30
State and political subdivisions	—	—	—	9	9
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	52	2,002	15,776	17,830
Other/non-agency	—	75	13	543	631
Total debt securities available for sale	30	127	2,015	16,328	18,500
Debt securities held to maturity					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	4,253	4,253
Other/non-agency	—	—	—	1,314	1,314
Total debt securities held to maturity	—	—	—	5,567	5,567
Total amortized cost of debt securities	\$30	\$127	\$2,015	\$21,895	\$24,067
Fair Value:					
Debt securities available for sale					
U.S. Treasury	\$30	\$—	\$—	\$—	\$30
State and political subdivisions	—	—	—	9	9
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	55	2,014	15,932	18,001
Other/non-agency	—	76	13	516	605
Total debt securities available for sale	30	131	2,027	16,457	18,645
Debt securities held to maturity					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	4,269	4,269
Other/non-agency	—	—	—	1,342	1,342
Total debt securities held to maturity	—	—	—	5,611	5,611
Total fair value of debt securities	\$30	\$131	\$2,027	\$22,068	\$24,256

The following table reports the amounts recognized in interest income from investment securities on the Consolidated Statements of Operations:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Taxable	\$155	\$154	\$314	\$303
Non-taxable	—	—	—	—
Total interest income from investment securities	\$155	\$154	\$314	\$303





CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Realized gains and losses on AFS securities are shown below:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Gains on sale of debt securities	\$10	\$—	\$22	\$25
Losses on sale of debt securities	(1	)—	(5	)—
Debt securities gains, net	\$9	\$—	\$17	\$25
Equity securities gains	\$1	\$—	\$3	\$—

The amortized cost and fair value of securities pledged are shown below:

(in millions)	June 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pledged against repurchase agreements	\$3,749	\$3,785	\$3,650	\$3,701
Pledged against FHLB borrowed funds	1,254	1,280	1,355	1,407
Pledged against derivatives, to qualify for fiduciary powers, and to secure public and other deposits as required by law	3,955	4,013	3,453	3,520

There were no loan securitizations for the three or six months ended June 30, 2015 and 2014.

The Company regularly enters into security repurchase agreements with unrelated counterparties. Repurchase agreements are financial transactions that involve the transfer of a security from one party to another and a subsequent transfer of the same (or “substantially the same”) security back to the original party. The Company’s repurchase agreements are typically short-term transactions, but they may be extended to longer terms to maturity. Such transactions are accounted for as secured borrowed funds on the Company’s financial statements. When permitted by GAAP, the Company offsets the short-term receivables associated with its reverse repurchase agreements with the short-term payables associated with its repurchase agreements.

The effects of this offsetting on the Consolidated Balance Sheets are presented in the following table:

(in millions)	June 30, 2015			December 31, 2014		
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts of Assets (Liabilities)	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts of Assets (Liabilities)
Securities sold under agreements to repurchase	(\$3,050 )	\$—	(\$3,050 )	(\$2,600 )	\$—	(\$2,600 )

Note: The Company also offsets certain derivative assets and derivative liabilities on the Consolidated Balance Sheets. For further information see Note 12 “Derivatives.”

Securities under the agreements to repurchase or resell are accounted for as secured borrowings. The following table presents the Company's related activity, by collateral type and remaining contractual maturity, at June 30, 2015:

(in millions)	Remaining Contractual Maturity of the Agreements				Total
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	

Securities sold under agreements to repurchase

Mortgage-backed securities - Agency	\$—	\$250	\$1,000	\$1,800	\$3,050
-------------------------------------	-----	-------	---------	---------	---------

For these securities sold under the agreements to repurchase, the Company would be obligated to provide additional collateral in the event of a significant decline in fair value of the collateral pledged. The Company manages the risk by monitoring the liquidity and credit quality of the collateral, as well as the maturity profile of the transactions.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3 - LOANS AND LEASES

A summary of the loans and leases portfolio follows:

(in millions)	June 30, 2015	December 31, 2014
Commercial	\$33,027	\$31,431
Commercial real estate	8,157	7,809
Leases	3,884	3,986
Total commercial	45,068	43,226
Residential mortgages	12,253	11,832
Home equity loans	3,022	3,424
Home equity lines of credit	14,917	15,423
Home equity loans serviced by others <sup>(1)</sup>	1,126	1,228
Home equity lines of credit serviced by others <sup>(1)</sup>	494	550
Automobile	13,727	12,706
Student	3,355	2,256
Credit cards	1,613	1,693
Other retail	963	1,072
Total retail	51,470	50,184
Total loans and leases <sup>(2) (3)</sup>	\$96,538	\$93,410

<sup>(1)</sup> The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

<sup>(2)</sup> Excluded from the table above are loans held for sale totaling \$697 million as of June 30, 2015 and \$281 million as of December 31, 2014.

<sup>(3)</sup> Mortgage loans serviced for others by the Company's subsidiaries are not included above, and amounted to \$17.8 billion and \$17.9 billion at June 30, 2015 and December 31, 2014, respectively.

Loans held for sale at fair value totaled \$397 million and \$256 million at June 30, 2015 and December 31, 2014, respectively, and consisted of residential mortgages originated for sale of \$318 million and the commercial trading portfolio of \$79 million as of June 30, 2015. As of December 31, 2014, residential mortgages originated for sale were \$213 million, and commercial trading portfolio totaled \$43 million. Other loans held for sale totaled \$300 million as of June 30, 2015 and consisted of \$260 million of commercial loan syndications and a \$40 million credit card portfolio. Other loans held for sale totaled \$25 million as of December 31, 2014 and consisted of commercial loan syndications.

In March 2015, the Company transferred \$41 million to loans held for sale associated with a terminated agent credit card services agreement consisting of \$43 million of outstanding credit card balances and a \$2 million valuation allowance. The terms of the agreement provided the agent an option, after a designated period of time, to purchase the credit card relationships covered under the agreement from Citizens or cause another financial institution to purchase the interests in these credit card relationships. The transaction is expected to close in August 2015.

Loans pledged as collateral for FHLB borrowed funds totaled \$22.3 billion and \$22.0 billion at June 30, 2015 and December 31, 2014, respectively. This collateral consists primarily of residential mortgages and home equity loans.

Loans pledged as collateral to support the contingent ability to borrow at the FRB discount window, if necessary, totaled \$12.9 billion and \$11.8 billion at June 30, 2015 and December 31, 2014, respectively.

During the six months ended June 30, 2015, the Company purchased a portfolio of residential mortgages with an outstanding principal balance of \$636 million, a portfolio of automobile loans with an outstanding principal balance of \$809 million, and a portfolio of student loans with an outstanding principal balance of \$463 million. During the six months ended June 30, 2014, the Company purchased a portfolio of residential loans with an outstanding principal balance of \$878 million, a portfolio of auto loans with an outstanding principal balance of \$759 million and a portfolio

of student loans with an outstanding principal balance of \$59 million.

During the six months ended June 30, 2015, the Company sold a portfolio of residential mortgages with an outstanding principal balance of \$273 million. During the six months ended June 30, 2014, in addition to the \$1.1 billion loans sold as part of the Company's sale of its Chicago-area retail branches, the Company sold portfolios of residential mortgage loans with outstanding principal balances of \$126 million and student loans of \$357 million as well as commercial loans with an outstanding principal balance of \$132 million.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - ALLOWANCE FOR CREDIT LOSSES, NONPERFORMING ASSETS, AND CONCENTRATIONS OF CREDIT RISK

The allowance for credit losses consists of the ALLL and the reserve for unfunded commitments. It is increased through a provision for credit losses that is charged to earnings, based on the Company's quarterly evaluation of the loan portfolio, and is reduced by net charge-offs and the ALLL associated with sold loans. See Note 1 "Significant Accounting Policies" to the Company's audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014, for a detailed discussion of ALLL reserve methodologies and estimation techniques.

On a quarterly basis, the Company reviews and refines its estimate of the allowance for credit losses, taking into consideration changes in portfolio size and composition, historical loss experience, internal risk ratings, current economic conditions, industry performance trends and other pertinent information.

There were no material changes in assumptions or estimation techniques compared with prior periods that impacted the determination of the current period's ALLL and the reserve for unfunded lending commitments.

The following is a summary of changes in the allowance for credit losses:

(in millions)	Six Months Ended June 30, 2015		
	Commercial	Retail	Total
Allowance for loan and lease losses as of January 1, 2015	\$544	\$651	\$1,195
Charge-offs	(21)	)(215)	)(236)
Recoveries	36	68	104
Net (charge-offs) recoveries	15	(147)	)(132)
Sales/Other	—	(2)	)(2)
Provision charged to income	6	134	140
Allowance for loan and lease losses as of June 30, 2015	565	636	1,201
Reserve for unfunded lending commitments as of January 1, 2015	61	—	61
Credit for unfunded lending commitments	(5)	)—	(5)
Reserve for unfunded lending commitments as of June 30, 2015	56	—	56
Total allowance for credit losses as of June 30, 2015	\$621	\$636	\$1,257
(in millions)	Six Months Ended June 30, 2014		
	Commercial	Retail	Total
Allowance for loan and lease losses as of January 1, 2014	\$498	\$723	\$1,221
Charge-offs	(14)	)(231)	)(245)
Recoveries	35	55	90
Net (charge-offs) recoveries	21	(176)	)(155)
Provision charged to income	(11)	)155	144
Allowance for loan and lease losses as of June 30, 2014	508	702	1,210
Reserve for unfunded lending commitments as of January 1, 2014	39	—	39
Credit for unfunded lending commitments	26	—	26
Reserve for unfunded lending commitments as of June 30, 2014	65	—	65
Total allowance for credit losses as of June 30, 2014	\$573	\$702	\$1,275

The recorded investment in loans and leases based on the Company's evaluation methodology is as follows:

(in millions)	June 30, 2015			December 31, 2014		
	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	\$156	\$1,189	\$1,345	\$205	\$1,208	\$1,413
Formula-based evaluation	44,912	50,281	95,193	43,021	48,976	91,997
Total	\$45,068	\$51,470	\$96,538	\$43,226	\$50,184	\$93,410



CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the allowance for credit losses by evaluation method:

(in millions)	June 30, 2015			December 31, 2014		
	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	\$21	\$107	\$128	\$20	\$109	\$129
Formula-based evaluation	600	529	1,129	585	542	1,127
Allowance for credit losses	\$621	\$636	\$1,257	\$605	\$651	\$1,256

For commercial loans and leases, the Company utilizes regulatory classification ratings to monitor credit quality. Loans with a “pass” rating are those that the Company believes will be fully repaid in accordance with the contractual loan terms. Commercial loans and leases that are “criticized” are those that have some weakness that indicates an increased probability of future loss. For retail loans, the Company primarily uses the loan’s payment and delinquency status to monitor credit quality. The further a loan is past due, the greater the likelihood of future credit loss. These credit quality indicators for both commercial and retail loans are continually updated and monitored.

The recorded investment in classes of commercial loans and leases based on regulatory classification ratings is as follows:

(in millions)	June 30, 2015				
	Pass	Criticized Special Mention	Substandard	Doubtful	Total
Commercial	\$31,443	\$865	\$635	\$84	\$33,027
Commercial real estate	7,949	133	34	41	8,157
Leases	3,831	4	49	—	3,884
Total	\$43,223	\$1,002	\$718	\$125	\$45,068

(in millions)	December 31, 2014				
	Pass	Criticized Special Mention	Substandard	Doubtful	Total
Commercial	\$30,022	\$876	\$427	\$106	\$31,431
Commercial real estate	7,354	329	61	65	7,809
Leases	3,924	12	50	—	3,986
Total	\$41,300	\$1,217	\$538	\$171	\$43,226

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The recorded investment in classes of retail loans, categorized by delinquency status is as follows:

(in millions)	June 30, 2015				Total
	Current	1-29 Days Past Due	30-89 Days Past Due	90 Days Past or More Past Due	
Residential mortgages	\$11,853	\$89	\$65	\$246	\$12,253
Home equity loans	2,652	187	48	135	3,022
Home equity lines of credit	14,253	406	73	185	14,917
Home equity loans serviced by others <sup>(1)</sup>	1,027	58	20	21	1,126
Home equity lines of credit serviced by others <sup>(1)</sup>	390	61	22	21	494
Automobile	12,817	784	104	22	13,727
Student	3,209	87	24	35	3,355
Credit cards	1,542	39	18	14	1,613
Other retail	889	57	14	3	963
Total	\$48,632	\$1,768	\$388	\$682	\$51,470

<sup>(1)</sup> The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

(in millions)	December 31, 2014				Total
	Current	1-29 Days Past Due	30-89 Days Past Due	90 Days Past or More Past Due	
Residential mortgages	\$11,352	\$114	\$97	\$269	\$11,832
Home equity loans	2,997	222	60	145	3,424
Home equity lines of credit	14,705	447	73	198	15,423
Home equity loans serviced by others <sup>(1)</sup>	1,101	78	26	23	1,228
Home equity lines of credit serviced by others <sup>(1)</sup>	455	66	10	19	550
Automobile	11,839	758	93	16	12,706
Student	2,106	108	25	17	2,256
Credit cards	1,615	39	22	17	1,693
Other retail	985	65	18	4	1,072
Total	\$47,155	\$1,897	\$424	\$708	\$50,184

<sup>(1)</sup> The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.



CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Nonperforming Assets

A summary of nonperforming loans and leases by class is as follows:

(in millions)	June 30, 2015			December 31, 2014		
	Nonaccruing	Accruing and 90 Days or More Delinquent	Total Nonperforming Loans and Leases	Nonaccruing	Accruing and 90 Days or More Delinquent	Total Nonperforming Loans and Leases
Commercial	\$81	\$2	\$83	\$113	\$1	\$114
Commercial real estate Leases	42	—	42	50	—	50
Total commercial	123	2	125	163	1	164
Residential mortgages	329	—	329	345	—	345
Home equity loans	189	—	189	203	—	203
Home equity lines of credit	254	—	254	257	—	257
Home equity loans serviced by others <sup>(1)</sup>	44	—	44	47	—	47
Home equity lines of credit serviced by others <sup>(1)</sup>	26	—	26	25	—	25
Automobile	30	—	30	21	—	21
Student	30	5	35	11	6	17
Credit cards	14	—	14	16	1	17
Other retail	3	1	4	5	—	5
Total retail	919	6	925	930	7	937
Total	\$1,042	\$8	\$1,050	\$1,093	\$8	\$1,101

<sup>(1)</sup> The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

The recorded investment in mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings are in process was \$260 million as of June 30, 2015.

A summary of other nonperforming assets is as follows:

(in millions)	June 30, 2015	December 31, 2014
Nonperforming assets, net of valuation allowance:		
Commercial	\$1	\$3
Retail	37	39
Nonperforming assets, net of valuation allowance	\$38	\$42

Nonperforming assets consist primarily of other real estate owned and are presented in other assets on the Consolidated Balance Sheets.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of key performance indicators is as follows:

	June 30, 2015		December 31, 2014	
Nonperforming commercial loans and leases as a percentage of total loans and leases	0.13	%	0.18	%
Nonperforming retail loans as a percentage of total loans and leases	0.96		1.00	
Total nonperforming loans and leases as a percentage of total loans and leases	1.09	%	1.18	%
Nonperforming commercial assets as a percentage of total assets	0.09	%	0.13	%
Nonperforming retail assets as a percentage of total assets	0.70		0.73	
Total nonperforming assets as a percentage of total assets	0.79	%	0.86	%

The following is an analysis of the age of the past due amounts (accruing and nonaccruing):

(in millions)	June 30, 2015			December 31, 2014		
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	30-89 Days Past Due	90 Days or More Past Due	Total Past Due
Commercial	\$58	\$83	\$141	\$57	\$114	\$171
Commercial real estate	25	42	67	26	50	76
Leases	2	—	2	3	—	3
Total commercial	85	125	210	86	164	250
Residential mortgages	65	246	311	97	269	366
Home equity loans	48	135	183	60	145	205
Home equity lines of credit	73	185	258	73	198	271
Home equity loans serviced by others <sup>(1)</sup>	20	21	41	26	23	49
Home equity lines of credit serviced by others <sup>(1)</sup>	22	21	43	10	19	29
Automobile	104	22	126	93	16	109
Student	24	35	59	25	17	42
Credit cards	18	14	32	22	17	39
Other retail	14	3	17	18	4	22
Total retail	388	682	1,070	424	708	1,132
Total	\$473	\$807	\$1,280	\$510	\$872	\$1,382

<sup>(1)</sup> The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impaired loans include: (1) nonaccruing larger balance commercial loans (greater than \$3 million carrying value); and (2) commercial and retail TDRs. The following is a summary of impaired loan information by class:

June 30, 2015

(in millions)	Impaired Loans With a Related Allowance	Allowance on Impaired Loans	Impaired Loans Without a Related Allowance	Unpaid Contractual Balance	Total Recorded Investment in Impaired Loans
Commercial	\$80	\$21	\$44	\$152	\$124
Commercial real estate	13	—	19	30	32
Total commercial	93	21	63	182	156
Residential mortgages	124	17	314	599	438
Home equity loans	98	13	179	342	277
Home equity lines of credit	24	2	128	184	152
Home equity loans serviced by others <sup>(1)</sup>	57	9	27	96	84
Home equity lines of credit serviced by others <sup>(1)</sup>	3	1	8	15	11
Automobile	3	—	10	18	13
Student	166	48	1	168	167
Credit cards	30	12	—	30	30
Other retail	15	5	2	20	17
Total retail	520	107	669	1,472	1,189
Total	\$613	\$128	\$732	\$1,654	\$1,345

<sup>(1)</sup> The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

December 31, 2014

(in millions)	Impaired Loans With a Related Allowance	Allowance on Impaired Loans	Impaired Loans Without a Related Allowance	Unpaid Contractual Balance	Total Recorded Investment in Impaired Loans
Commercial	\$124	\$19	\$36	\$178	\$160
Commercial real estate	7	1	38	62	45
Total commercial	131	20	74	240	205
Residential mortgages	157	18	288	605	445
Home equity loans	129	11	141	335	270
Home equity lines of credit	75	3	86	193	161
Home equity loans serviced by others <sup>(1)</sup>	75	9	16	102	91
Home equity lines of credit serviced by others <sup>(1)</sup>	4	1	7	14	11
Automobile	2	1	9	16	11
Student	167	48	—	167	167
Credit cards	32	13	—	32	32
Other retail	17	5	3	23	20
Total retail	658	109	550	1,487	1,208
Total	\$789	\$129	\$624	\$1,727	\$1,413

<sup>(1)</sup> The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Additional information on impaired loans is as follows:

(in millions)	Three Months Ended June 30,			
	2015		2014	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
Commercial	\$1	\$129	\$1	\$96
Commercial real estate	—	51	—	94
Total commercial	1	180	1	190
Residential mortgages	4	436	4	444
Home equity loans	3	272	2	257
Home equity lines of credit	1	151	1	160
Home equity loans serviced by others <sup>(1)</sup>	1	84	2	101
Home equity lines of credit serviced by others <sup>(1)</sup>	—	10	—	8
Automobile	—	12	—	8
Student	2	164	2	159
Credit cards	—	30	—	37
Other retail	—	18	—	22
Total retail	11	1,177	11	1,196
Total	\$12	\$1,357	\$12	\$1,386

<sup>(1)</sup> The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

(in millions)	Six Months Ended June 30,			
	2015		2014	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
Commercial	\$1	\$133	\$1	\$102
Commercial real estate	1	54	—	96
Total commercial	2	187	1	198
Residential mortgages	8	433	7	437
Home equity loans	5	266	4	249
Home equity lines of credit	2	150	2	157
Home equity loans serviced by others <sup>(1)</sup>	2	84	3	100
Home equity lines of credit serviced by others <sup>(1)</sup>	—	10	—	8
Automobile	—	11	—	8
Student	4	162	4	156
Credit cards	1	29	1	36
Other retail	—	18	—	23
Total retail	22	1,163	21	1,174
Total	\$24	\$1,350	\$22	\$1,372

<sup>(1)</sup> The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.



CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Troubled Debt Restructurings

A loan modification is identified as a TDR when the Company or a bankruptcy court grants the borrower a concession the Company would not otherwise make in response to the borrower's financial difficulties. TDRs typically result from the Company's loss mitigation efforts and are undertaken in order to improve the likelihood of recovery and continuity of the relationship. The Company's loan modifications are handled on a case-by-case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet the borrower's financial needs.

Concessions granted in TDRs for all classes of loans may include lowering the interest rate, forgiving a portion of principal, extending the loan term, lowering scheduled payments for a specified period of time, principal forbearance, or capitalizing past due amounts. A rate increase can be a concession if the increased rate is lower than a market rate for debt with risk similar to that of the restructured loan. TDRs for commercial loans and leases may also involve creating a multiple note structure, accepting non-cash assets, accepting an equity interest, or receiving a performance-based fee. In some cases, a TDR may involve multiple concessions. The financial effects of TDRs for all loan classes may include lower income (either due to a lower interest rate or a delay in the timing of cash flows), larger loan loss provisions, and accelerated charge-offs if the modification renders the loan collateral-dependent. In some cases, interest income throughout the term of the loan may increase if, for example, the loan is extended or the interest rate is increased as a result of the restructuring.

Because TDRs are impaired loans, the Company measures impairment by comparing the present value of expected future cash flows, or when appropriate, the fair value of collateral, to the loan's recorded investment. Any excess of recorded investment over the present value of expected future cash flows or collateral value is recognized by creating a valuation allowance or increasing an existing valuation allowance. Any portion of the loan's recorded investment the Company does not expect to collect as a result of the modification is charged off at the time of modification.

Commercial TDRs were \$124 million and \$176 million on June 30, 2015 and December 31, 2014, respectively. Retail TDRs totaled \$1.2 billion on June 30, 2015 and December 31, 2014. Commitments to lend additional funds to debtors owing receivables which were TDRs were \$18 million and \$53 million on June 30, 2015 and December 31, 2014, respectively.

The following table summarizes how loans were modified during the three months ended June 30, 2015, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances include loans that became TDRs during 2015 and were paid off in full, charged off, or sold prior to June 30, 2015.

(dollars in millions)	Primary Modification Types					
	Interest Rate Reduction <sup>(1)</sup>			Maturity Extension <sup>(2)</sup>		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	7	\$1	\$1	36	\$2	\$2
Commercial real estate	—	—	—	—	—	—
Total commercial	7	1	1	36	2	2
Residential mortgages	20	3	3	9	2	2
Home equity loans	26	1	1	49	11	11
Home equity lines of credit	—	—	—	—	—	—
Home equity loans serviced by others <sup>(3)</sup>	5	—	—	—	—	—
Home equity lines of credit serviced by others <sup>(3)</sup>	—	—	—	—	—	—
Automobile	18	1	1	1	—	—
Student	—	—	—	—	—	—
Credit cards	630	3	3	—	—	—

Edgar Filing: CITIZENS FINANCIAL GROUP INC/RI - Form 10-Q

Other retail	—	—	—	—	—	—
Total retail	699	8	8	59	13	13
Total	706	\$9	\$9	95	\$15	\$15

24

---



CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions)	Primary Modification Types		Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification	
	Other <sup>(4)</sup>				
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment		
Commercial	3	\$—	\$—	\$—	\$—
Commercial real estate	—	—	—	—	—
Total commercial	3	—	—	—	—
Residential mortgages	42	4	4	—	—
Home equity loans	97	7	7	—	—
Home equity lines of credit	78	5	5	—	1
Home equity loans serviced by others <sup>(3)</sup>	25	1	1	—	—
Home equity lines of credit serviced by others <sup>(3)</sup>	15	1	1	—	—
Automobile	172	3	2	—	—
Student	369	7	7	1	—
Credit card	—	—	—	1	—
Other retail	4	—	—	—	—
Total retail	802	28	27	2	1
Total	805	\$28	\$27	\$2	\$1

<sup>(1)</sup> Includes modifications that consist of multiple concessions, one of which is an interest rate reduction.

<sup>(2)</sup> Includes modifications that consist of multiple concessions, one of which is a maturity extension (unless one of the other concessions was an interest rate reduction).

<sup>(3)</sup> The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

<sup>(4)</sup> Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forbearance, capitalizing arrearages, and principal forgiveness. Also included are the following: deferrals, trial modifications, certain bankruptcies, loans in forbearance and prepayment plans. Modifications can include the deferral of accrued interest resulting in post-modification balances being higher than pre-modification.

The following table summarizes how loans were modified during the three months ended June 30, 2014, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances include loans that became TDRs during 2014 and were paid off in full, charged off, or sold prior to June 30, 2014.

(dollars in millions)	Primary Modification Types		Maturity Extension <sup>(2)</sup>			
	Interest Rate Reduction <sup>(1)</sup>					
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	8	\$6	\$6	15	\$1	\$1
Commercial real estate	1	—	—	2	—	—
Total commercial	9	6	6	17	1	1
Residential mortgages	24	4	4	10	1	2
Home equity loans	37	2	2	10	1	—

Edgar Filing: CITIZENS FINANCIAL GROUP INC/RI - Form 10-Q

Home equity lines of credit	1	—	—	106	7	6
Home equity loans serviced by others <sup>(3)</sup>	4	—	—	—	—	—
Home equity lines of credit serviced by others <sup>(3)</sup>	1	—	—	1	—	—
Automobile	33	1	1	7	—	—
Student	—	—	—	—	—	—
Credit cards	608	3	3	—	—	—
Other retail	1	—	—	—	—	—
Total retail	709	10	10	134	9	8
Total	718	\$16	\$16	151	\$10	\$9

25

---

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions)	Primary Modification Types		Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification	
	Other <sup>(4)</sup>				
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment		
Commercial	1	\$—	\$—	\$—	\$—
Commercial real estate	—	—	—	—	—
Total commercial	1	—	—	—	—
Residential mortgages	132	15	14	(1)	—
Home equity loans	210	14	14	—	—
Home equity lines of credit	81	6	5	—	2
Home equity loans serviced by others <sup>(3)</sup>	46	3	2	—	—
Home equity lines of credit serviced by others <sup>(3)</sup>	13	—	—	—	—
Automobile	145	2	2	—	1
Student	457	8	8	—	—
Credit card	—	—	—	—	—
Other retail	9	—	—	—	—
Total retail	1,093	48	45	(1)	3
Total	1,094	\$48	\$45	(\$1)	\$3

<sup>(1)</sup> Includes modifications that consist of multiple concessions, one of which is an interest rate reduction.

<sup>(2)</sup> Includes modifications that consist of multiple concessions, one of which is a maturity extension (unless one of the other concessions was an interest rate reduction).

<sup>(3)</sup> The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

<sup>(4)</sup> Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forbearance, capitalizing arrearages, and principal forgiveness. Also included are the following: deferrals, trial modifications, certain bankruptcies, loans in forbearance and prepayment plans. Modifications can include the deferral of accrued interest resulting in post-modification balances being higher than pre-modification.

The following table summarizes how loans were modified during the six months ended June 30, 2015, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances include loans that became TDRs during 2015 and were paid off in full, charged off, or sold prior to June 30, 2015.

(dollars in millions)	Primary Modification Types					
	Interest Rate Reduction <sup>(1)</sup>			Maturity Extension <sup>(2)</sup>		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	14	\$3	\$3	64	\$12	\$12
Commercial real estate	1	—	—	—	—	—
Total commercial	15	3	3	64	12	12
Residential mortgages	53	9	9	19	4	4
Home equity loans	47	2	2	86	16	16

Edgar Filing: CITIZENS FINANCIAL GROUP INC/RI - Form 10-Q

Home equity lines of credit	—	—	—	3	—	—
Home equity loans serviced by others <sup>(3)</sup>	22	1	1	—	—	—
Home equity lines of credit serviced by others <sup>(3)</sup>	—	—	—	—	—	—
Automobile	38	1	1	2	—	—
Student	—	—	—	—	—	—
Credit cards	1,234	7	7	—	—	—
Other retail	—	—	—	—	—	—
Total retail	1,394	20	20	110	20	20
Total	1,409	\$23	\$23	174	\$32	\$32

26

---

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions)	Primary Modification Types		Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification	
	Other <sup>(4)</sup>				
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment		
Commercial	4	\$2	\$2	(\$1 )	\$—
Commercial real estate	1	4	4	—	—
Total commercial	5	6	6	(1 )	—
Residential mortgages	106	10	10	(1 )	—
Home equity loans	294	17	17	—	—
Home equity lines of credit	213	14	12	—	2
Home equity loans serviced by others <sup>(3)</sup>	71	3	3	—	1
Home equity lines of credit serviced by others <sup>(3)</sup>	22	1	1	—	—
Automobile	469	8	6	—	1
Student	750	14	14	3	—
Credit Card	—	—	—	1	—
Other retail	15	—	—	—	—
Total retail	1,940	67	63	3	4
Total	1,945	\$73	\$69	\$2	\$4

<sup>(1)</sup> Includes modifications that consist of multiple concessions, one of which is an interest rate reduction.

<sup>(2)</sup> Includes modifications that consist of multiple concessions, one of which is a maturity extension (unless one of the other concessions was an interest rate reduction).

<sup>(3)</sup> The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

<sup>(4)</sup> Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forbearance, capitalizing arrearages, and principal forgiveness. Also included are the following: deferrals, trial modifications, certain bankruptcies, loans in forbearance and prepayment plans. Modifications can include the deferral of accrued interest resulting in post modification balances being higher than pre-modification.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes how loans were modified during the six months ended June 30, 2014, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances include loans that became TDRs during 2014 and were paid off in full, charged off, or sold prior to June 30, 2014.

(dollars in millions)	Primary Modification Types					
	Interest Rate Reduction <sup>(1)</sup>			Maturity Extension <sup>(2)</sup>		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	15	\$7	\$7	28	\$2	\$2
Commercial real estate	2	—	—	2	—	—
Total commercial	17	7	7	30	2	2
Residential mortgages	66	10	10	22	3	3
Home equity loans	68	4	4	68	4	3
Home equity lines of credit	2	—	—	176	11	10
Home equity loans serviced by others <sup>(3)</sup>	18	1	1	—	—	—
Home equity lines of credit serviced by others <sup>(3)</sup>	3	—	—	1	—	—
Automobile	55	1	1	7	—	—
Student	—	—	—	—	—	—
Credit cards	1,185	6	6	—	—	—
Other retail	3	—	—	—	—	—
Total retail	1,400	22	22	274	18	16
Total	1,417	\$29	\$29	304	\$20	\$18

(dollars in millions)	Primary Modification Types					
	Other <sup>(4)</sup>					
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification	
Commercial	2	\$—	\$—	\$—	\$—	
Commercial real estate	—	—	—	—	—	
Total commercial	2	—	—	—	—	
Residential mortgages	239	28	28	—	—	
Home equity loans	523	34	32	—	2	
Home equity lines of credit	159	11	9	—	3	
Home equity loans serviced by others <sup>(3)</sup>	85	3	3	—	—	
Home equity lines of credit serviced by others <sup>(3)</sup>	24	1	1	—	—	
Automobile	417	6	4	—	2	
Student	853	16	16	—	—	
Credit Card	—	—	—	—	—	
Other retail	29	1	1	—	—	
Total retail	2,329	100	94	—	7	
Total	2,331	\$100	\$94	\$—	\$7	

- (1) Includes modifications that consist of multiple concessions, one of which is an interest rate reduction.
- (2) Includes modifications that consist of multiple concessions, one of which is a maturity extension (unless one of the other concessions was an interest rate reduction).
- (3) The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.
- (4) Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forbearance, capitalizing arrearages, and principal forgiveness. Also included are the following: deferrals, trial modifications, certain bankruptcies, loans in forbearance and prepayment plans. Modifications can include the deferral of accrued interest resulting in post modification balances being higher than pre-modification.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below summarizes TDRs that defaulted during the three months ended June 30, 2015 and 2014 within 12 months of their modification date. For purposes of this table, a payment default is defined as being past due 90 days or more under the modified terms. Amounts represent the loan's recorded investment at the time of payment default. Loan data includes loans meeting the criteria that were paid off in full, charged off, or sold prior to June 30, 2015 and 2014. If a TDR of any loan type becomes 90 days past due after being modified, the loan is written down to the fair value of collateral less cost to sell. The amount written off is charged to the ALLL.

(dollars in millions)	Three Months Ended June 30,			
	2015		2014	
	Number of Contracts	Balance Defaulted	Number of Contracts	Balance Defaulted
Commercial	8	\$1	6	\$2
Commercial real estate	—	—	—	—
Total commercial	8	1	6	2
Residential mortgages	34	5	95	12
Home equity loans	32	2	71	5
Home equity lines of credit	32	1	49	2
Home equity loans serviced by others <sup>(1)</sup>	7	—	18	1
Home equity lines of credit serviced by others <sup>(1)</sup>	6	—	3	—
Automobile	19	—	26	1
Student	44	1	94	1
Credit cards	100	1	147	1
Other retail	1	—	3	—
Total retail	275	10	506	23
Total	283	\$11	512	\$25

<sup>(1)</sup> The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.



CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below summarizes TDRs that defaulted during the six months ended June 30, 2015 and 2014 within 12 months of their modification date.

(dollars in millions)	Six Months Ended June 30,			
	2015		2014	
	Number of Contracts	Balance Defaulted	Number of Contracts	Balance Defaulted
Commercial	14	\$1	17	\$3
Commercial real estate	—	—	1	1
Total commercial	14	1	18	4
Residential mortgages	83	11	135	16
Home equity loans	83	6	155	11
Home equity lines of credit	72	3	139	6
Home equity loans serviced by others <sup>(1)</sup>	23	1	34	1
Home equity lines of credit serviced by others <sup>(1)</sup>	7	—	12	—
Automobile	42	1	58	1
Student	109	2	191	3
Credit cards	202	1	313	2
Other retail	3	—	9	—
Total retail	624	25	1,046	40
Total	638	\$26	1,064	\$44

<sup>(1)</sup> The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

#### Concentrations of Credit Risk

Most of the Company's business activity is with customers located in the New England, Mid-Atlantic and Midwest regions. Generally, loans are collateralized by assets including real estate, inventory, accounts receivable, other personal property and investment securities. As of June 30, 2015 and December 31, 2014, the Company had a significant amount of loans collateralized by residential and commercial real estate. There are no significant concentrations within the commercial loan or retail loan portfolios. Exposure to credit losses arising from lending transactions may fluctuate with fair values of collateral supporting loans, which may not perform according to contractual agreements. The Company's policy is to collateralize loans to the extent necessary; however, unsecured loans are also granted on the basis of the financial strength of the applicant and the facts surrounding the transaction. Certain loan products, including residential mortgages, home equity loans and lines of credit, and credit cards, have contractual features that may increase credit exposure to the Company in the event of an increase in interest rates or a decline in housing values. These products include loans that exceed 90% of the value of the underlying collateral (high LTV loans), interest-only and negative amortization residential mortgages, and loans with low introductory rates. Certain loans have more than one of these characteristics.

The following table presents balances of loans with these characteristics:

(in millions)	June 30, 2015				
	Residential Mortgages	Home Equity Loans and Lines of Credit	Home Equity Products serviced by others	Credit Cards	Total
High loan-to-value	\$748	\$1,400	\$974	\$—	\$3,122
Interest only/negative amortization	961	—	—	—	961
Low introductory rate	—	1	—	90	91

Edgar Filing: CITIZENS FINANCIAL GROUP INC/RI - Form 10-Q

Multiple characteristics and other	20	—	—	—	20
Total	\$1,729	\$1,401	\$974	\$90	\$4,194

30

---

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions)	December 31, 2014				Total
	Residential Mortgages	Home Equity Loans and Lines of Credit	Home Equity Products serviced by others	Credit Cards	
High loan-to-value	\$773	\$1,743	\$1,025	\$—	\$3,541
Interest only/negative amortization	894	—	—	—	894
Low introductory rate	—	—	—	98	98
Multiple characteristics and other	24	—	—	—	24
Total	\$1,691	\$1,743	\$1,025	\$98	\$4,557

NOTE 5 - VARIABLE INTEREST ENTITIES

Low Income Housing Tax Credit Partnerships

The Company makes equity investments in various limited partnerships that sponsor affordable housing projects utilizing the LIHTC pursuant to Section 42 of the Internal Revenue Code. The purpose of these investments is to assist in achieving goals of the Community Reinvestment Act and to earn an adequate return of capital. Each LIHTC partnership is managed by a general partner who exercises full and exclusive control over the affairs of the limited partnership, including: selecting and investing in specific properties, company expenditures and use of working capital funds, borrowing funds, disposition of fund property, contract authority, employment of agents, and litigation resolution. The limited partner(s) may not participate in the management, control, conduct or operation of the limited partnership's business and the general partner may only be removed by the limited partner(s) if the general partner fails to comply with the terms of the partnership agreement or is negligent in performing its duties. In addition, Citizens, as a limited partner, is only liable for capital contributions up to a maximum amount specified in the investment agreement. For all of these reasons, the Company believes that the general partner of each limited partnership has the power to direct the activities which most significantly affect the performance of each partnership and that the Company is therefore not the primary beneficiary of any LIHTC partnership. Accordingly, the Company does not consolidate any of its LIHTC partnership investments.

Effective January 1, 2015, the Company adopted ASU 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects" and uses the proportional amortization method to account for all of its investments in its LIHTC partnership investments. The retrospective adoption of ASU 2014-01 would have had an immaterial effect on the Company's financial statements; therefore, the Company applied ASU 2014-01 prospectively. Under the proportional amortization method, the Company recognizes the net investment performance in the Consolidated Statements of Operations as a component of income tax expense. LIHTC investment balances are reported in other assets in the Company's Consolidated Balance Sheets, with unfunded commitments reported in other liabilities.

At June 30, 2015, the Company's balance of LIHTC investments was \$494 million and unfunded commitments totaled \$323 million. For the three months ended June 30, 2015, the Company recognized \$12 million of amortization expense, \$12 million of tax credits and \$5 million of other tax benefits associated with these investments in the provision for income taxes. For the six months ended June 30, 2015, the Company recognized \$24 million of amortization expense, \$23 million of tax credits and \$9 million of other tax benefits associated with these investments in the provision for income taxes. No LIHTC investment impairment losses were recognized during the three and six months ended June 30, 2015.



CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 6 - GOODWILL

Goodwill represents the excess of fair value of purchased assets over the purchase price. Since 1988, the Company has completed more than 25 acquisitions of banks or assets of banks. The changes in the carrying value of goodwill for the six months ended June 30, 2015 and 2014 were:

(in millions)	Consumer Banking	Commercial Banking	Total
Balance at December 31, 2013	\$2,136	\$4,740	\$6,876
Adjustments	—	—	—
Balance at June 30, 2014	\$2,136	\$4,740	\$6,876
Balance at December 31, 2014	\$2,136	\$4,740	\$6,876
Adjustments	—	—	—
Balance at June 30, 2015	\$2,136	\$4,740	\$6,876

Accumulated impairment losses related to the Consumer Banking reporting unit totaled \$5.9 billion at June 30, 2015 and 2014. The accumulated impairment losses related to the Commercial Banking reporting unit totaled \$50 million at June 30, 2015 and 2014.

The Company performs an annual test for impairment of goodwill at a level of reporting referred to as a reporting unit. The Company has identified and allocated goodwill to two reporting units — Consumer Banking and Commercial Banking — based upon reviews of the structure of the Company's executive team and supporting functions, resource allocations and financial reporting processes. No impairment was recorded for the six months ended June 30, 2015 and 2014.

## NOTE 7 - MORTGAGE BANKING

In its mortgage banking business, the Company sells residential mortgages to government-sponsored entities and other parties, who may issue securities backed by pools of such loans. The Company retains no beneficial interests in these sales, but may retain the servicing rights of the loans sold. The Company is obligated to subsequently repurchase a loan if the purchaser discovers a standard representation or warranty violation such as noncompliance with eligibility requirements, customer fraud, or servicing violations. This primarily occurs during a loan file review.

The Company received \$1.4 billion and \$688 million of proceeds from the sale of residential mortgages for the six months ended June 30, 2015 and 2014, respectively, and recognized gains on such sales of \$32 million and \$17 million for the six months ended June 30, 2015 and 2014, respectively. Pursuant to the standard representations and warranties obligations discussed in the preceding paragraph, the Company repurchased residential mortgage loans totaling \$7 million and \$17 million for the six months ended June 30, 2015 and 2014, respectively.

Mortgage servicing fees, a component of mortgage banking income, were \$28 million and \$30 million for the six months ended June 30, 2015 and 2014, respectively. The Company recorded valuation recoveries of \$7 million and \$3 million for its MSRs for the six months ended June 30, 2015 and 2014, respectively.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes related to MSR were as follows:

(in millions)	As of and for the Six Months Ended June 30,	
	2015	2014
MSRs:		
Balance as of January 1	\$184	\$208
Amount capitalized	13	8
Amortization	(20 )	(21 )
Carrying amount before valuation allowance	177	195
Valuation allowance for servicing assets:		
Balance as of January 1	18	23
Valuation recovery	(7 )	(3 )
Balance at end of period	11	20
Net carrying value of MSRs	\$166	\$175

MSRs are presented in other assets on the Consolidated Balance Sheets.

The fair value of MSRs is estimated using a valuation model that calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, contractual servicing fee income, servicing costs, default rates, ancillary income, and other economic factors, which are determined based on current market conditions. The valuation model uses a static discounted cash flow methodology incorporating current market interest rates. A static model does not attempt to forecast or predict the future direction of interest rates; rather it estimates the amount and timing of future servicing cash flows using current market interest rates. The current mortgage interest rate influences the expected prepayment rate and therefore, the length of the cash flows associated with the servicing asset, while the discount rate determines the present value of those cash flows. Expected mortgage loan prepayment assumptions are obtained using the QRM Multi Component prepayment model. The Company periodically obtains third-party valuations of its MSRs to assess the reasonableness of the fair value calculated by the valuation model.

The key economic assumptions used to estimate the value of MSRs are presented in the following table:

(dollars in millions)	June 30, 2015	December 31, 2014
Fair value	\$180	\$179
Weighted average life (in years)	5.4	5.2
Weighted average constant prepayment rate	11.7%	12.4%
Weighted average discount rate	9.8%	9.8%

The key economic assumptions used in estimating the fair value of MSRs capitalized during the period were as follows:

	Six Months Ended June 30,	
	2015	2014
Weighted average life (in years)	5.4	5.4
Weighted average constant prepayment rate	11.1%	12.1%
Weighted average discount rate	9.6%	10.3%



CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The sensitivity analysis below as of June 30, 2015 and December 31, 2014 presents the impact to current fair value of an immediate 50 basis points and 100 basis points adverse change in the key economic assumptions and presents the decline in fair value that would occur if the adverse change were realized. These sensitivities are hypothetical. The effect of a variation in a particular assumption on the fair value of the mortgage servicing rights is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (e.g., changes in interest rates, which drive changes in prepayment speeds, could result in changes in the discount rates), which might amplify or counteract the sensitivities. The primary risk inherent in the Company's MSR is an increase in prepayments of the underlying mortgage loans serviced, which is dependent upon market movements of interest rates.

(in millions)	June 30, 2015	December 31, 2014
Prepayment rate:		
Decline in fair value from a 50 basis point decrease in interest rates	\$6	\$9
Decline in fair value from a 100 basis point decrease in interest rates	\$12	\$15
Weighted average discount rate:		
Decline in fair value from a 50 basis point increase in weighted average discount rate	\$3	\$3
Decline in fair value from a 100 basis point increase in weighted average discount rate	\$6	\$6

NOTE 8 - BORROWED FUNDS

The following is a summary of the Company's short-term borrowed funds:

(in millions)	June 30, 2015	December 31, 2014
Federal funds purchased	\$—	\$574
Securities sold under agreements to repurchase	3,784	3,702
Other short-term borrowed funds (primarily current portion of FHLB advances)	6,762	6,253
Total short-term borrowed funds	\$10,546	\$10,529

Key data related to short-term borrowed funds is presented in the following table:

(dollars in millions)	As of and for the Six Months Ended June 30, 2015	As of and for the Year Ended December 31, 2014
Weighted-average interest rate at period-end:		
Federal funds purchased and securities sold under agreements to repurchase	0.27	% 0.14
Other short-term borrowed funds (primarily current portion of FHLB advances)	0.26	0.26
Maximum amount outstanding at month-end during the period:		
Federal funds purchased and securities sold under agreements to repurchase	\$5,375	\$7,022
Other short-term borrowed funds (primarily current portion of FHLB advances)	7,004	7,702
Average amount outstanding during the period:		
Federal funds purchased and securities sold under agreements to repurchase	\$4,489	\$5,699
Other short-term borrowed funds (primarily current portion of FHLB advances)	6,732	5,640
Weighted-average interest rate during the period:		
Federal funds purchased and securities sold under agreements to repurchase	0.21	% 0.12



Other short-term borrowed funds (primarily current portion of FHLB advances)	0.26	0.25
--	------	------

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the Company's long-term borrowed funds:

(in millions)	June 30, 2015	December 31, 2014
Citizens Financial Group, Inc.:		
4.150% fixed rate subordinated debt, due 2022	\$350	\$350
5.158% fixed-to-floating rate subordinated debt, (LIBOR + 3.56%) callable, due 2023 <sup>(1)</sup>	333	333
4.771% fixed rate subordinated debt, due 2023 <sup>(1)</sup>	333	333
4.691% fixed rate subordinated debt, due 2024 <sup>(1)</sup>	334	334
4.153% fixed rate subordinated debt, due 2024 <sup>(1)</sup>	333	333
4.023% fixed rate subordinated debt, due 2024 <sup>(1)</sup>	333	333
4.082% fixed rate subordinated debt, due 2025 <sup>(1)</sup>	334	334
Banking Subsidiaries:		
1.600% senior unsecured notes, due 2017 <sup>(2)</sup> <sup>(3)</sup>	751	750
2.450% senior unsecured notes, due 2019 <sup>(2)</sup> <sup>(3)</sup>	751	746
Federal Home Loan advances due through 2033	19	772
Other	19	24
Total long-term borrowed funds	\$3,890	\$4,642

<sup>(1)</sup> Intercompany borrowed funds with RBS. See Note 14 "Related Party Transactions" for further information.

<sup>(2)</sup> These securities were offered under CBNA's Global Bank Note Program dated December 1, 2014.

<sup>(3)</sup> \$1.5 billion principal balance of unsecured notes presented net of \$2 million and (\$4) million hedge of interest rate risk on medium term debt using interest rate swaps at June 30, 2015 and December 31, 2014, respectively. See Note 12 "Derivatives" for further information.

Advances, lines of credit, and letters of credit from the FHLB are collateralized by pledged mortgages and pledged securities at least sufficient to satisfy the collateral maintenance level established by the FHLB. The utilized borrowing capacity for FHLB advances and letters of credit was \$11.5 billion and \$11.3 billion at June 30, 2015 and December 31, 2014, respectively. The Company's available FHLB borrowing capacity was \$3.3 billion and \$3.5 billion at June 30, 2015 and December 31, 2014, respectively. The Company can also borrow from the FRB discount window to meet short-term liquidity requirements. Collateral, such as investment securities and loans, is pledged to provide borrowing capacity at the FRB. At June 30, 2015, the Company's unused secured borrowing capacity was approximately \$27.9 billion, which includes unencumbered securities, FHLB borrowing capacity, and FRB discount window capacity.

The following is a summary of maturities for the Company's long-term borrowed funds at June 30, 2015:

Year	(in millions)
2015 or on demand	\$—
2016	—
2017	758
2018	8
2019	752
2020 and thereafter	2,372
Total	\$3,890

NOTE 9 - STOCKHOLDERS' EQUITY

Preferred Stock

As of June 30, 2015, the Company had 100,000,000 shares authorized and 250,000 shares outstanding of \$25.00 par value undesignated preferred stock. The Board of Directors or any authorized committee thereof are authorized to provide for the issuance of these shares in one or more series, and by filing a certificate pursuant to applicable law of the State of Delaware, to establish or change from time to time the number of shares of each such series, and to fix the designations, powers, including voting powers, full or limited, or no voting powers, preferences and the relative, participating, optional or other special rights of the shares of each series and any qualifications, limitations and restrictions thereof. There were no shares of preferred stock issued and outstanding as of December 31, 2014.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On April 6, 2015, the Company issued \$250 million, or 250,000 shares, of 5.500% fixed-to-floating rate non-cumulative perpetual Series A Preferred Stock, par value of \$25.00 per share with a liquidation preference \$1,000 per share (the "Preferred Stock") to the initial purchasers in reliance on the exemption from registration provided by Section (4)(a)(2) of the Securities Act of 1933, as amended, for resale pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. As a result of this issuance, the Company received net proceeds of \$247 million after underwriting discount.

The Preferred Stock has no stated maturity and is not subject to any sinking fund or other obligation of the Company. Holders of the Preferred Stock will be entitled to receive dividend payments when, and if, declared by the Company's Board of Directors or a duly authorized committee thereof. Any such dividends will be payable on a semi-annual basis at an annual rate equal to 5.500%. On April 6, 2020, the Preferred Stock converts to a quarterly floating-rate basis equal to three-month U.S. dollar LIBOR on the related dividend determination date plus 3.960%.

Citizens may redeem the Preferred Stock, in whole or in part on any dividend payment date, on or after April 6, 2020 or, in whole but not in part, at any time within 90 days following a regulatory capital treatment event at a redemption price equal to \$1,000 per share, plus any declared and unpaid dividends, without accumulation of any undeclared dividends. Citizens may not redeem shares of the Preferred Stock without obtaining the prior approval of the FRBG if then required under applicable capital guidelines.

Shares of the Preferred Stock have priority over the Company's common stock with regard to the payment of dividends and, as such, the Company may not pay dividends on or repurchase, redeem, or otherwise acquire for consideration shares of its common stock unless dividends for the Preferred Stock have been declared for that period and sufficient funds have been set aside to make payment.

Except in certain limited circumstances, the Preferred Stock does not have any voting rights.

#### Treasury Stock

On August 3, 2015, CFG used the net proceeds of its public offering of \$250 million aggregate principal amount 4.350% Subordinated Notes due 2025 issued on July 31, 2015, to repurchase 9,615,384 shares of its outstanding common stock directly from RBS at a public offering price of \$26.00 per share. Immediately following the completion of this stock repurchase transaction, RBS owned 110,461,782 shares, or 20.9%, of CFG's outstanding common stock. The repurchased shares are held in treasury and will be presented in the Company's Consolidated Financial Statements beginning in the third quarter of 2015.

On April 7, 2015, the Company used the net proceeds of the Preferred Stock offering described above to repurchase 10,473,397 shares of its common stock from RBS at a total cost of approximately \$250 million and a price per share of \$23.87, which equaled the volume-weighted average price of the Company's common stock for all traded volume over the five trading days preceding the repurchase agreement date of April 1, 2015. The repurchased shares are held in treasury.

During the six months ended June 30, 2015, the Company recorded an additional 836,946 shares of treasury stock associated with share-based compensation plan activity for a total cost of \$21 million at a weighted-average price per share of \$25.48.

#### NOTE 10 - EMPLOYEE BENEFITS

##### Pension Plans

The Company maintains a non-contributory pension plan (the "Plan" or "qualified plan") that was closed to new hires and re-hires effective January 1, 2009, and frozen to all participants effective December 31, 2012. Benefits under the Plan are based on employees' years of service and highest five-year average eligible compensation. The Plan is funded on a current basis, in compliance with the requirements of ERISA. The Company also provides an unfunded, non-qualified supplemental retirement plan (the "non-qualified plan"), which was closed and frozen consistent with the qualified plan.

RBS restructured the administration of employee benefit plans during 2008. As a result, the qualified and non-qualified pension plans of certain RBS subsidiaries referred to as the Company's "Affiliates" merged with the Company's pension plans.

In September 2014, in preparation for the IPO, the Company divested portions of the qualified and non-qualified plans to newly established plans sponsored by the Affiliates. Citizens remains the sponsor of the original plans, which provides benefits for its current and former employees. RBS is the plan sponsor of the newly established plans, which provide benefits for current and former employees of the Affiliates. As a result of this divestiture, the Company transferred \$129 million of plan assets and \$148 million of plan liabilities from the qualified plan to the new plan for Affiliates. The Company also transferred liabilities of

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

\$7 million related to the non-qualified plan to the new plan established for Affiliates. The Company made a \$1 million cash payment to RBS as a result of divesting the portion of the pension and other benefit plans associated with the Affiliates.

On February 20, 2015, CFG made a contribution of \$100 million to the qualified plan.

The following table presents the components of net periodic (income) cost for the Company's qualified and non-qualified plans:

(in millions)	Six Months Ended June 30,						
	Qualified Plan		Non-Qualified Plan		Total		
	2015	2014	2015	2014	2015	2014	
Service cost	\$2	\$2	\$—	\$—	\$2	\$2	
Interest cost	22	22	2	2	24	24	
Expected return on plan assets	(37	) (35	) —	—	(37	) (35	)
Amortization of actuarial loss	6	4	1	1	7	5	
Net periodic pension (income) cost	(\$7	) (\$7	) \$3	\$3	(\$4	) (\$4	)

#### Postretirement Benefits

The Company and Affiliates merged their postretirement plans into a single postretirement plan in 2008 and continue to provide health care insurance benefits for certain retired employees and their spouses. In preparation for the IPO, the Company divested the portion of the postretirement plan associated with the Affiliates in September 2014. As a result, in September 2014, the Company transferred liabilities of approximately \$7 million to the Affiliates.

Employees enrolled in medical coverage immediately prior to retirement and meeting eligibility requirements can elect retiree medical coverage. Employees and covered spouses can continue coverage at the full cost, except for a small group described below. However, coverage must be elected at the time of retirement and cannot be elected at a future date. Spouses may be covered only if the spouse is covered at the time of the employee's retirement.

The Company reviews coverage on an annual basis and reserves the right to modify or cancel coverage at any renewal date. The Company's cost sharing for certain full-time employees, who were hired prior to August 1, 1993 with 25 years of service who reach retirement age (under age 65) while employed by the Company is 70%; for those with 15-24 years of service, the Company's share is 50%. Also, the Company shares in the cost for retiree medical benefits for a closed group of grandfathered arrangements from acquisitions. A small, closed group of retirees receive life insurance coverage. Effective July 1, 2014, the Company utilizes a private health care exchange to provide medical and dental benefits to current and future Medicare-eligible plan participants. The Company provides a fixed subsidy to a small, closed group of retirees and spouses based on the subsidy levels prior to July 1, 2014; retirees and spouses pay the cost of benefits in excess of the fixed subsidy.

#### NOTE 11 - INCOME TAXES

##### Income Tax Provision

The provision for income taxes was \$92 million and \$163 million for the three months ended June 30, 2015 and 2014, respectively, resulting in an effective tax rate of 32.7% and 34.3% for the three months ended June 30, 2015 and 2014, respectively. The provision for income taxes was \$198 million and \$232 million for the six months ended June 30, 2015 and 2014, respectively, resulting in an effective tax rate of 33.2% and 32.7% for the six months ended June 30, 2015 and 2014, respectively. For the six months ended June 30, 2015 and 2014, the effective tax rate compared favorably to the statutory rate of 35% primarily as a result of the permanent benefits of tax credits and tax-exempt income.

The effective income tax rate for the six months ended June 30, 2015 reflected the adoption of ASU No. 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects." The application of this guidance resulted in the reclassification of the amortization of these investments to income tax expense from noninterest income. See Note 5 "Variable Interest Entities," for further information.

Deferred Tax Liability

At June 30, 2015, the Company reported a net deferred tax liability of \$558 million, compared to a \$493 million liability as of December 31, 2014. The increase in the net deferred tax liability is primarily attributable to current year timing adjustments.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 12 - DERIVATIVES

In the normal course of business, the Company enters into a variety of derivative transactions in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates and foreign currency exchange rates. The Company does not use derivatives for speculative purposes.

The Company's derivative instruments are recognized on the Consolidated Balance Sheets at fair value. Information regarding the valuation methodology and inputs used to estimate the fair value of the Company's derivative instruments is described in Note 15 "Fair Value Measurements."

The following table identifies derivative instruments included on the Consolidated Balance Sheets in derivative assets and derivative liabilities:

(in millions)	June 30, 2015			December 31, 2014		
	Notional Amount <sup>(1)</sup>	Derivative Assets	Derivative Liabilities	Notional Amount <sup>(1)</sup>	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate swaps	\$9,500	\$95	\$81	\$5,750	\$24	\$99
Derivatives not designated as hedging instruments:						
Interest rate swaps	33,052	544	459	31,848	589	501
Foreign exchange contracts	7,820	172	167	8,359	170	164
Other contracts	1,310	11	6	730	7	9
Total derivatives not designated as hedging instruments		727	632		766	674
Gross derivative fair values		822	713		790	773
Less: Gross amounts offset in the Consolidated Balance Sheets <sup>(2)</sup>		(157)	(157)		(161)	(161)
Total net derivative fair values presented in the Consolidated Balance Sheets <sup>(3)</sup>		\$665	\$556		\$629	\$612

<sup>(1)</sup> The notional or contractual amount of interest rate derivatives and foreign exchange contracts is the amount upon which interest and other payments under the contract are based. For interest rate derivatives, the notional amount is typically not exchanged. Therefore, notional amounts should not be taken as the measure of credit or market risk, as they tend to greatly overstate the true economic risk of these contracts.

<sup>(2)</sup> Amounts represent the impact of legally enforceable master netting agreements that allow the Company to settle positive and negative positions.

<sup>(3)</sup> The Company also offsets assets and liabilities associated with repurchase agreements on the Consolidated Balance Sheets. See Note 2 "Securities" for further information.

The Company's derivative transactions are internally divided into three sub-groups: institutional, customer and residential loan.

#### Institutional derivatives

The institutional derivatives portfolio primarily consists of interest rate swap agreements that are used to hedge the interest rate risk associated with the Company's loans and financing liabilities (i.e., borrowed funds, deposits, etc.). The goal of the Company's interest rate hedging activities is to manage interest rate sensitivity so that movements in interest rates do not significantly adversely affect net interest income.

The Company enters into certain interest rate swap agreements to hedge the risk associated with floating rate loans. By entering into pay-floating/receive-fixed interest rate swaps, the Company was able to minimize the variability in the cash flows of these assets due to changes in interest rates. The Company has outstanding interest rate swap



agreements designed to hedge a portion of the Company's borrowed funds and deposits. By entering into a pay-fixed/receive-floating interest rate swap, a portion of these liabilities has been effectively converted to a fixed rate liability for the term of the interest rate swap agreement.

Customer derivatives

The customer derivatives portfolio consists of interest rate swap agreements and option contracts that are transacted to meet the financing needs of the Company's customers. Offsetting swap and cap agreements are simultaneously transacted to effectively eliminate the Company's market risk associated with the customer derivative products. The customer derivatives portfolio also includes foreign exchange contracts that are entered into on behalf of customers for the purpose of hedging exposure related to cash orders and loans and deposits denominated in foreign currency. The primary risks associated with these transactions

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

arise from exposure to changes in foreign currency exchange rates and the ability of the counterparties to meet the terms of the contract. To manage this market risk, the Company simultaneously enters into offsetting foreign exchange contracts.

#### Residential loan derivatives

The Company enters into residential loan commitments that allow residential mortgage customers to lock in the interest rate on a residential mortgage while the loan undergoes the underwriting process. The Company also uses forward sales contracts to protect the value of residential mortgage loans and loan commitments that are being underwritten for future sale to investors in the secondary market.

The Company has certain derivative transactions that are designated as hedging instruments described as follows:

#### Derivatives designated as hedging instruments

The Company's total institutional hedging portfolio qualifies for hedge accounting. This includes interest rate swaps that are designated in highly effective cash flow hedging relationships. The Company formally documents at inception all hedging relationships, as well as risk management objectives and strategies for undertaking various accounting hedges. Additionally, the Company uses dollar offset or regression analysis at the hedge's inception, and monthly thereafter to assess whether the derivatives are expected to be, or have been, highly effective in offsetting changes in the hedged item's expected cash flows. The Company discontinues hedge accounting when it is determined that a derivative is not expected to be or has ceased to be effective as a hedge, and then reflects changes in fair value in earnings after termination of the hedge relationship.

#### Fair value hedges

The Company entered into interest rate swap agreements to manage the interest rate exposure on its medium term borrowings. The changes in fair value of the fair value hedges, to the extent that the hedging relationship is effective, are recorded through earnings and offset against changes in the fair value of the hedged item.

The following table summarizes certain information related to the Company's fair value hedges:

(in millions)	The Effect of Fair Value Hedges on Net Income					
	Amounts Recognized in Other Income for the Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	Derivative	Hedged Item	Hedge Ineffectiveness	Derivative	Hedged Item	Hedge Ineffectiveness
Hedges of interest rate risk on borrowings using interest rate swaps	(\$3	) \$3	\$—	\$6	(\$6	) \$—

There was no impact on net income for the three and six months ended June 30, 2014.

#### Cash flow hedges

The Company has outstanding interest rate swap agreements designed to hedge a portion of the Company's floating rate assets and financing liabilities (including its borrowed funds and deposits). All of these swaps have been deemed as highly effective cash flow hedges. The effective portion of the hedging gains and losses associated with these hedges are recorded in OCI; the ineffective portion of the hedging gains and losses is recorded in earnings (other income). Hedging gains and losses on derivative contracts reclassified from OCI to current period earnings are included in the line item in the accompanying Consolidated Statements of Operations in which the hedged item is recorded and in the same period that the hedged item affects earnings. During the next 12 months, approximately \$15 million of net loss (pre-tax) on derivative instruments included in OCI is expected to be reclassified to net interest expense in the Consolidated Statements of Operations.

Hedging gains and losses associated with the Company's cash flow hedges are immediately reclassified from OCI to current period earnings (other income) if it becomes probable that the hedged forecasted transactions will not occur

during the originally specified time period.

39

---

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes certain information related to the Company's cash flow hedges:  
The Effect of Cash Flow Hedges on Net Income and Stockholders' Equity

(in millions)	Amounts		Amounts	
	Recognized for the Three Months Ended June 30,		Recognized for the Six Months Ended June 30,	
	2015	2014	2015	2014
Effective portion of gain (loss) recognized in OCI <sup>(1)</sup>	(\$8 )	\$97	\$96	\$191
Amounts reclassified from OCI to interest income <sup>(2)</sup>	17	18	35	36
Amounts reclassified from OCI to interest expense <sup>(2)</sup>	(14 )	(27 )	(29 )	(56 )

<sup>(1)</sup> The cumulative effective gains and losses on the Company's cash flow hedging activities are included on the accumulated other comprehensive loss line item on the Consolidated Balance Sheets.

<sup>(2)</sup> This amount includes both (a) the amortization of effective gains and losses associated with the Company's terminated cash flow hedges and (b) the current reporting period's interest settlements realized on the Company's active cash flow hedges. Both (a) and (b) were previously included on the accumulated other comprehensive loss line item on the Consolidated Balance Sheets and were subsequently recorded as adjustments to the interest expense of the underlying hedged item.

Economic hedges

The Company's customer derivatives are recorded on the Consolidated Balance Sheets at fair value. These include interest rate and foreign exchange derivative contracts that are transacted to meet the hedging and financing needs of the Company's customers. Mark-to-market adjustments to the fair value of customer related interest rate contracts are included in other income in the accompanying Consolidated Statements of Operations. Mark-to-market adjustments to the fair value of foreign exchange contracts relating to foreign currency loans are included in interest and fees on loans and leases in the accompanying Consolidated Statements of Operations, while all other foreign currency contract fair value changes are included in foreign exchange and trade finance fees. In both cases, the mark-to-market gains and losses associated with the customer derivatives are mitigated by the mark-to-market gains and losses on the offsetting interest rate and foreign exchange derivative contracts transacted.

The Company's residential loan derivatives (including residential loan commitments and forward sales contracts) are recorded on the Consolidated Balance Sheets at fair value. Mark-to-market adjustments to the fair value of residential loan commitments and forward sale contracts are included in noninterest income under mortgage banking fees.

The following table summarizes certain information related to the Company's economic hedges:

The Effect of Customer Derivatives and Economic Hedges on Net Income

(in millions)	Amounts		Amounts Recognized	
	Recognized in Noninterest Income for the Three Months Ended June 30,		in Noninterest Income for the Six Months Ended June 30,	
	2015	2014	2015	2014
Customer derivative contracts				
Customer interest rate contracts <sup>(1)</sup>	(\$9 )	\$88	\$64	\$149
Customer foreign exchange contracts <sup>(1)</sup>	18	2	(17 )	6
Residential loan commitments <sup>(2)</sup>	(7 )	5	(7 )	8
Economic hedges				
Offsetting derivatives transactions to hedge interest rate risk on customer interest rate contracts <sup>(1)</sup>	17	(82 )	(51 )	(135 )

Offsetting derivatives transactions to hedge foreign exchange risk on customer foreign exchange contracts <sup>(3)</sup>	(19	)	(1	)	16	(7	)
Forward sale contracts <sup>(2)</sup>	3	(3	)	2	(4	)	
Total	\$3	\$9	\$7	\$17			

<sup>(1)</sup> Reported in other income on the Consolidated Statements of Operations.

<sup>(2)</sup> Reported in mortgage banking fees on the Consolidated Statements of Operations.

<sup>(3)</sup> Reported in foreign exchange and trade finance fees on the Consolidated Statements of Operations.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 13 - COMMITMENTS AND CONTINGENCIES

The following is a summary of outstanding off-balance sheet arrangements:

(in millions)	June 30, 2015	December 31, 2014
Commitment amount:		
Undrawn commitments to extend credit	\$55,887	\$55,899
Financial standby letters of credit	2,181	2,315
Performance letters of credit	55	65
Commercial letters of credit	59	75
Marketing rights	49	51
Risk participation agreements	22	19
Residential mortgage loans sold with recourse	12	11
Total	\$58,265	\$58,435

#### Commitments to Extend Credit

Commitments to extend credit are agreements to lend to customers in accordance with conditions contractually agreed upon in advance. Generally, the commitments have fixed expiration dates or termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being drawn upon, the contract amounts are not necessarily indicative of future cash requirements.

#### Letters of Credit

Standby letters of credit, both financial and performance, are issued by the Company for its customers. They are used as conditional guarantees of payment to a third party in the event the customer either fails to make specific payments (financial) or fails to complete a specific project (performance). Commercial letters of credit are used to facilitate the import of goods. The commercial letter of credit is used as the method of payment to the Company's customers' suppliers. The Company's exposure to credit loss in the event of counterparty nonperformance in connection with the above instruments is represented by the contractual amount of those instruments, net of the value of collateral held. Standby letters of credit and commercial letters of credit are issued for terms of up to ten years and one year, respectively.

Generally, letters of credit are collateralized by cash, accounts receivable, inventory or investment securities. Credit risk associated with letters of credit is considered in determining the appropriate amounts of reserves for unfunded commitments.

The Company recognizes a liability on the Consolidated Balance Sheets representing its obligation to stand ready to perform over the term of the standby letters of credit in the event that the specified triggering events occur. The liability for these guarantees was \$1 million at June 30, 2015 and \$3 million at December 31, 2014.

#### Marketing Rights

During 2003, the Company entered into a 25-year agreement to acquire the naming and marketing rights of a baseball stadium in Pennsylvania. The Company paid \$2 million for the six months ended June 30, 2015 and \$3 million for the year ended December 31, 2014, respectively, and is obligated to pay \$49 million over the remainder of the contract.

#### Risk Participation Agreements

RPAs are guarantees issued by the Company to other parties for a fee, whereby the Company agrees to participate in the credit risk of a derivative customer of the other party. Under the terms of these agreements, the "participating bank" receives a fee from the "lead bank" in exchange for the guarantee of reimbursement if the customer defaults on an interest rate swap. The interest rate swap is transacted such that any and all exchanges of interest payments (favorable and unfavorable) are made between the lead bank and the customer. In the event that an early termination of the swap

occurs and the customer is unable to make a required close out payment, the participating bank assumes that obligation and is required to make this payment.

RPAs where the Company acts as the lead bank are referred to as “participations-out,” in reference to the credit risk associated with the customer derivatives being transferred out of the Company. Participations-out generally occur concurrently with the sale of new customer derivatives. RPAs where the Company acts as the participating bank are referred to as “participations-

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

in,” in reference to the credit risk associated with the counterparty’s derivatives being assumed by the Company. The Company’s maximum credit exposure is based on its proportionate share of the settlement amount of the referenced interest rate swap. Settlement amounts are generally calculated based on the fair value of the swap plus outstanding accrued interest receivables from the customer. The Company’s estimate of the credit exposure associated with its risk participations-in as of June 30, 2015 and December 31, 2014 is \$22 million and \$19 million, respectively. The current amount of credit exposure is spread out over 80 counterparties. RPAs generally have terms ranging from 1-5 years; however, certain outstanding agreements have terms as long as 10 years.

#### Other Commitments

In June 2015, the Company entered into an agreement to purchase student loans on a quarterly basis in future periods. Under the terms of the agreement, the Company purchased loans with outstanding balances of \$202 million during June 2015 and committed to purchase a minimum of \$100 million to a maximum of \$163 million per quarter for the subsequent three consecutive quarters through the first quarter 2016. The maximum amount of cumulative loan purchases under the terms of the agreement is \$700 million. The agreement may be extended by the mutual agreement of the parties for an additional four quarters. The Company may terminate the agreement at will with payment of a variable termination fee.

In June 2015, the Company amended its agreement originally entered into in May 2014, to purchase automobile loans on a quarterly basis in future periods. Commencing on the effective date of June 25, 2015 and through July 31, 2015, the amended agreement requires the purchase of a minimum of \$250 million of outstanding balances to a maximum of \$600 million per quarterly period. For quarterly periods on or after August 1, 2015, the minimum and maximum purchases are \$50 million and \$200 million, respectively. The agreement automatically renews until terminated by either party. The Company may cancel the agreement at will with payment of a variable termination fee. After three years, there is no termination fee.

In July 2014, the Company created a commercial loan trading desk to provide ongoing secondary market support and liquidity to its clients. Unsettled loan trades (i.e., loan purchase contracts) represent firm commitments to purchase loans from a third party at an agreed-upon price. Principal amounts associated with unsettled commercial loan trades are off-balance sheet commitments until delivery of the loans has taken place. Fair value adjustments associated with each unsettled loan trade are recognized on the Consolidated Balance Sheets and classified within other assets or other liabilities, depending on whether the fair value of the unsettled trade represents an unrealized gain or unrealized loss. The principal balance of unsettled commercial loan trade purchases and sales were \$96 million and \$102 million at June 30, 2015, respectively. Settled loans purchased by the trading desk are classified as loans held for sale, at fair value on the Consolidated Balance Sheets. Refer to Note 15 “Fair Value Measurements” for further information.

#### Contingencies

The Company operates in a legal and regulatory environment that exposes it to potentially significant risks. A certain amount of litigation ordinarily results from the nature of the Company’s banking and other businesses. The Company is a party to legal proceedings, including class actions. It is also the subject of investigations, reviews, and regulatory matters arising out of its normal business operations, which, in some instances, relate to concerns about unfair and/or deceptive practices and mis-selling of certain products. In addition, the Company engages in discussions with relevant governmental and regulatory authorities on a regular and ongoing basis regarding various issues, and any issues discussed or identified may result in investigatory or other action being taken. Litigation and regulatory matters may result in settlements, damages, fines, penalties, public or private censure, increased costs, required remediation, restrictions on business activities, or other impacts on the Company.

In these disputes and proceedings, the Company contests liability and the amount of damages as appropriate. Given their complex nature, it may be years before some of these matters are finally resolved. Moreover, before liability can be reasonably estimated for a claim, numerous legal and factual issues may need to be examined, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal issues relevant to the proceedings in question.



The Company cannot predict with certainty if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages. The Company recognizes a provision for a claim when, in the opinion of management after seeking legal advice, it is probable that a liability exists and the amount of loss can be reasonably estimated. In many proceedings, however, it is not possible to determine whether any loss is probable or to estimate the amount of any loss. In each of the matters described below, the Company is unable to estimate the liability in excess of any provision accrued, if any, that might arise or its effects on the Company's Consolidated Statements of Operations or Consolidated Cash Flows in any particular period. Set out below are descriptions of significant legal matters involving the Company and its subsidiaries. Based on information currently available, the advice of legal counsel and other advisers, and established reserves, management believes that the aggregate

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

liabilities, if any, potentially arising from these proceedings will not have a materially adverse effect on the Company's unaudited interim Consolidated Financial Statements.

#### Consumer Products Matters

The activities of the Company's bank subsidiaries are subject to extensive laws and regulations concerning unfair or deceptive acts or practices in connection with customer products. Certain of the bank subsidiaries' practices with respect to overdraft protection and other consumer products have not met applicable standards. The bank subsidiaries have implemented and are continuing to implement changes to improve and bring their practices in accordance with regulatory guidance.

In April 2013, the bank subsidiaries consented to the issuance of orders by the OCC and the FDIC (the Consent Orders). In the Consent Orders (which are publicly available and will remain in effect until terminated by the regulators), the bank subsidiaries neither admitted nor denied the regulators' findings that they had engaged in deceptive marketing and implementation of the bank's overdraft protection program, checking rewards programs, and stop-payment process for pre-authorized recurring electronic fund transfers. Under the Consent Orders, the bank subsidiaries paid a total of \$10 million in civil monetary penalties and \$8 million in restitution to affected customers, agreed to cease and desist any operations in violation of Section 5 of the Federal Trade Commission Act, and submit to the regulators periodic written progress reports regarding compliance with the Consent Orders. In addition, CBNA agreed to take certain remedial actions to improve its compliance risk management systems and to create a comprehensive action plan designed to achieve compliance with the Consent Orders. Restitution plans have been prepared and submitted for approval, and CBNA has submitted for approval, and is in the process of implementing, its action plan for compliance with the Consent Orders, as well as updated policies, procedures, and programs related to its compliance risk management systems.

The Company's banking subsidiaries have engaged in discussions with regulators regarding, among other things, certain identity theft and debt cancellation products, and identifying and correcting errors in customer deposits. The banking subsidiaries have paid restitution regarding some of these past practices and it is probable that there will be additional restitution to certain affected customers in connection with certain of these past practices. In addition, the banking subsidiaries expect to face shortly formal administrative enforcement actions from their federal supervisory agencies, including the assessment of civil monetary penalties and restitution, relating to these past practices, for which we believe that we are fully reserved.

#### Telephone Consumer Protection Act Litigation

The Company is a defendant in a purported class action complaint filed in December 2013 in the United States District Court for the Southern District of California pursuant to the Telephone Consumer Protection Act. The named plaintiff purports to represent a "national class" of customers who allegedly received automated calls to their cell phones from the bank or its agents, without customer consent, in violation of the Telephone Consumer Protection Act. The Company is vigorously defending this matter, but is unable to predict the outcome of this matter.

#### LIBOR Litigation

The Company is a defendant in lawsuits in which allegations have been made that RBS manipulated U.S. dollar LIBOR to the detriment of the Company's customers. The lawsuits include a purported class action on behalf of borrowers of the Company whose interest rates were tied to U.S. dollar LIBOR. The plaintiffs in these cases assert various theories of liability, including fraud, negligent misrepresentation, breach of contract, and unjust enrichment. The Company is vigorously defending these matters, but is unable to predict the outcome of these matters.

#### Foreclosure-Related Expenses

In May 2013, the civil division of the U.S. Attorney's Office for the Southern District of New York served a subpoena pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 seeking information regarding

home mortgage foreclosure expenses submitted for reimbursement to the United States Department of Housing and Urban Development, FNMA, or FHLMC. The Company is cooperating with the investigation.

#### Mortgage Repurchase Demands

The Company is an originator and servicer of residential mortgages and routinely sells such mortgage loans in the secondary market and to government-sponsored entities. In the context of such sales, the Company makes certain representations and warranties regarding the characteristics of the underlying loans and, as a result, may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of those representations and warranties. Between the start of January 2009 and June 30, 2015, the Company received approximately \$165 million in repurchase demands and \$99 million in indemnification payment requests in respect of loans originated, for the most part, since 2003. Of those claims presented, \$95 million was paid to repurchase residential mortgage loans, and \$33 million was incurred for indemnification costs to make investors

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

whole. The Company repurchased mortgage loans totaling \$7 million and \$17 million for the six months ended June 30, 2015 and 2014, respectively. The Company incurred indemnification costs of none and \$7 million for the six months ended June 30, 2015 and 2014, respectively. The Company cannot estimate what the future level of repurchase demands will be or the Company's ultimate exposure, and cannot give any assurance that its historical experience will continue in the future. The volume of repurchase demands may increase or decrease. In addition to the above, the Company responded to subpoenas issued by the Office of the Inspector General for the Federal Housing Finance Agency in December 2013 which requested information about loans sold to FNMA and the FHLMC from 2003 through 2011. The Company is cooperating with the investigation.

**NOTE 14 - RELATED PARTY TRANSACTIONS**

As of June 30, 2015, the Company was an indirect subsidiary of RBS. The tables and discussions below present the financial statement effects of significant transactions with RBS.

In September 2014, the Company entered into certain agreements that established a framework for its ongoing relationship with RBS. Specifically, the Company entered into the following agreements with RBS: Separation and Shareholder Agreement, Registration Rights Agreement, Trade Mark License Agreement, Amended and Restated Master Services Agreement, and Transitional Services Agreements. These agreements were filed as exhibits in Part II, Item 6 — Exhibits to the Company's quarterly report on Form 10-Q/A filed November 14, 2014.

The following is a summary of borrowed funds from RBS:

(dollars in millions)	Interest Rate	Maturity Date	June 30, 2015	December 31, 2014
Subordinated debt	5.158%	June 2023	\$333	\$333
	4.771%	October 2023	333	333
	4.691%	January 2024	334	334
	4.153%	July 2024	333	333
	4.023%	October 2024	333	333
	4.082%	January 2025	334	334

The following table presents total interest expense recorded on subordinated debt with RBS:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest expense on subordinated debt	\$20	\$13	\$40	\$25

The Company enters into interest rate swap agreements with RBS for the purpose of reducing the Company's exposure to interest rate fluctuations. The following table presents a summary of these swap agreements:

(dollars in millions)	June 30, 2015			December 31, 2014		
	Notional	Fixed Rates	Maturity Date	Notional	Fixed Rates	Maturity Date
Receive-fixed swaps	\$4,750	1.66% to 2.04%	2019 - 2023	\$4,750	1.66% to 2.04%	2019 - 2023
Pay-fixed swaps	2,500	2.03% to 4.30%	2016 - 2023	1,000	4.18% to 4.30%	2016
Total	\$7,250			\$5,750		

The following table presents net interest income (expense) recorded by the Company in relation to interest rate swap agreements with RBS:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	\$3	(\$10 )	\$6	(\$21 )

The effect of related party interest rate swap agreements on net interest income (expense)

In order to meet the financing needs of its customers, the Company enters into interest rate swap and cap agreements with its customers and simultaneously enters into offsetting swap and cap agreements with RBS. The Company earns a spread equal

44

---

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

to the difference between rates charged to the customer and rates charged by RBS. The notional amount of these interest rate swap and cap agreements outstanding with RBS was \$8.5 billion and \$9.8 billion at June 30, 2015 and December 31, 2014, respectively.

Also to meet the financing needs of its customers, the Company enters into a variety of foreign currency denominated products, such as loans, deposits and foreign exchange contracts. To manage the foreign exchange risk associated with these products, the Company simultaneously enters into offsetting foreign exchange contracts with RBS. The Company earns a spread equal to the difference between rates charged to the customer and rates charged by RBS. The notional amount of foreign exchange contracts outstanding with RBS was \$4.0 billion and \$4.7 billion at June 30, 2015 and December 31, 2014, respectively.

The following table presents the income (expense) recorded by the Company in relation to the interest rate swap and cap agreements and foreign exchange contracts with RBS:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
The effect of related party interest rate swap and cap agreements on other income	\$18	(\$82 )	(\$50 )	(\$135 )
The effect of related party foreign exchange contracts on foreign exchange and trade finance fees	(\$19 )	(\$1 )	\$16	(\$7 )

The Company receives income for providing services and referring customers to RBS. The Company also shares office space with certain RBS entities for which rent expense and/or income is recorded in occupancy expense. Also, the Company receives certain services provided by RBS and by certain RBS entities, the fees for which were recorded in outside services expense.

The following table presents the effect of the related party fees on total fee income and outside services:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
The effect of related party service and referral fees, net of occupancy expense, on total fee income	\$3	\$3	\$7	\$8
The effect of related party service fees on outside services	\$3	\$8	\$5	\$16

The Company paid \$21 million and \$10 million in regular common stock dividends to RBS for the three months ended June 30, 2015 and 2014, respectively, and \$60 million and \$35 million for the six months ended June 30, 2015 and 2014, respectively.

The Company, as a matter of policy and during the ordinary course of business with underwriting terms similar to those offered to the public, has entered into credit facilities with directors and executive officers and their immediate families, as well as their affiliated companies. Outstanding loan balances amounted to \$125 million and \$126 million at June 30, 2015 and December 31, 2014, respectively.

#### NOTE 15 - FAIR VALUE MEASUREMENTS

As discussed in Note 1 "Significant Accounting Policies," to the Company's audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014, the Company measures or monitors many of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for assets and liabilities for which fair value is the required or elected measurement basis of accounting. Additionally, fair value is used on a nonrecurring basis to evaluate assets for impairment or for disclosure purposes. Nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets. The Company also applies the fair value measurement guidance to determine amounts reported for certain disclosures in

this Note for assets and liabilities not required to be reported at fair value in the financial statements.

**Fair Value Option, Residential Mortgage Loans Held for Sale**

The Company elected to account for residential mortgage loans held for sale at fair value. Applying fair value accounting to the residential mortgage loans held for sale better aligns the reported results of the economic changes in the value of these loans and their related hedge instruments.

The fair value of residential loans held for sale is derived from observable mortgage security prices and includes adjustments for loan servicing value, agency guarantee fees, and other loan level attributes which are mostly observable in the

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

marketplace. Credit risk does not significantly impact the valuation since these loans are sold shortly after origination. Therefore, the Company classifies the residential mortgage loans held for sale in Level 2 of the fair value hierarchy. The following table summarizes the difference between the aggregate fair value and the aggregate unpaid principal balance for residential mortgage loans held for sale measured at fair value:

(in millions)	June 30, 2015			December 31, 2014		
	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
Residential mortgage loans held for sale, at fair value	\$318	\$315	\$3	\$213	\$206	\$7

The election of the fair value option for financial assets and financial liabilities is optional and irrevocable. The loans accounted for under the fair value option are initially measured at fair value (i.e., acquisition cost) when the financial asset is acquired. Subsequent changes in fair value are recognized in mortgage banking fees on the Consolidated Statement of Operations. The Company recognized mortgage banking (expense) income of (\$3) million and \$4 million for the three months ended June 30, 2015 and 2014, respectively. The Company recognized mortgage banking (expense) income of (\$2) million and \$5 million for the six months ended June 30, 2015 and 2014, respectively. Interest income on residential mortgage loans held for sale is calculated based on the contractual interest rate of the loan and is recorded in interest income.

#### Fair Value Option, Commercial and Commercial Real Estate Loans Held for Sale

The Company elected to account for certain commercial and commercial real estate loans held for sale at fair value. These loans are managed by a commercial secondary loan desk that provides liquidity to banks, finance companies and institutional investors. Applying fair value accounting to this portfolio is appropriate because the Company holds these loans with the intent to sell within short term periods.

The fair value of commercial and commercial real estate loans held for sale is estimated using observable prices of identical or similar loans that transact in the marketplace. In addition, the Company uses external pricing services that provide estimates of fair values based on quotes from various dealers transacting in the market, sector curves or benchmarking techniques. Therefore, the Company classifies the commercial and commercial real estate loans managed by the commercial secondary loan desk in Level 2 of the fair value hierarchy given the observable market inputs.

The following table summarizes the difference between the aggregate fair value and the aggregate unpaid principal balance for commercial and commercial real estate loans held for sale measured at fair value:

(in millions)	June 30, 2015			December 31, 2014		
	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
Commercial and commercial real estate loans held for sale, at fair value	\$79	\$79	\$—	\$43	\$43	\$—



There were no loans in this portfolio that were 90 days or more past due or nonaccruing as of June 30, 2015. The loans accounted for under the fair value option are initially measured at fair value when the financial asset is recognized. Subsequent changes in fair value are recognized in current earnings. Since all loans in the Company's commercial trading portfolio consist of floating rate obligations, all changes in fair value are due to changes in credit risk. Such credit-related fair value changes may include observed changes in overall credit spreads and/or changes to the creditworthiness of an individual borrower. Unsettled trades within the commercial trading portfolio are not recognized on the Consolidated Balance Sheets and represent off-balance sheet commitments. Refer to Note 13 "Commitments and Contingencies" for further information.

Interest income on commercial and commercial real estate loans held for sale is calculated based on the contractual interest rate of the loan and is recorded in interest income. Additionally, the Company recognized \$1 million and \$3 million for the three

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

and six months ended June 30, 2015, respectively, in other noninterest income related to its commercial trading portfolio. There was no interest income or noninterest income recorded in the three and six months ended June 30, 2014.

#### Recurring Fair Value Measurements

The Company utilizes a variety of valuation techniques to measure its assets and liabilities at fair value. Following is a description of valuation methodologies used for significant assets and liabilities carried on the balance sheet at fair value on a recurring basis:

##### Securities Available for Sale

The fair value of securities classified as AFS is based upon quoted prices, if available. Where observable quoted prices are available in an active market, securities are classified as Level 1 in the fair value hierarchy. Classes of instruments that are valued using this market approach include debt securities issued by the U.S. Treasury. If quoted market prices are not available, the fair value for the security is estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. These instruments are classified as Level 2 because they currently trade in active markets and the inputs to the valuations are observable. The pricing models used to value securities generally begin with market prices (or rates) for similar instruments and make adjustments based on the unique characteristics of the instrument being valued. These adjustments reflect assumptions made regarding the sensitivity of each security's value to changes in interest rates and prepayment speeds. Classes of instruments that are valued using this market approach include residential and commercial CMOs, specified pool mortgage "pass-through" securities and other debt securities issued by U.S. government-sponsored entities and state and political subdivisions.

A significant majority of the Company's Level 1 and 2 securities are priced using an external pricing service. The Company verifies the accuracy of the pricing provided by its primary outside pricing service on a quarterly basis. This process involves using a secondary external vendor to provide valuations for the Company's securities portfolio for comparison purposes. Any securities with discrepancies beyond a certain threshold are researched and, if necessary, valued by an independent outside broker.

In certain cases where there is limited activity or less transparency around inputs to the valuation model, securities are classified as Level 3.

##### Residential loans held for sale

See the "Fair Value Option, Residential Mortgage Loans Held for Sale" discussion above.

##### Commercial loans held for sale

See the "Fair Value Option, Commercial and Commercial Real Estate Loans Held for Sale" discussion above.

##### Derivatives

The vast majority of the Company's derivatives portfolio is composed of "plain vanilla" interest rate swaps, which are traded in over-the-counter markets where quoted market prices are not readily available. For these interest rate derivatives, fair value is determined utilizing models that use primarily market observable inputs, such as swap rates and yield curves. The pricing models used to value interest rate swaps calculate the sum of each instrument's fixed and variable cash flows, which are then discounted using an appropriate yield curve (i.e., LIBOR or OIS curve) to arrive at the fair value of each swap. The pricing models do not contain a high level of subjectivity as the methodologies used do not require significant judgment. The Company also considers certain adjustments to the modeled price which market participants would make when pricing each instrument, including a credit valuation adjustment that reflects the credit quality of the swap counterparty. The Company incorporates the effect of exposure to a particular counterparty's credit by netting its derivative contracts with the collateral available and calculating a credit valuation adjustment on the basis of the net position with the counterparty where permitted. The determination of this adjustment requires judgment on behalf of Company management; however, the total amount of this portfolio-level adjustment is not material to the total fair value of the interest rate swaps in their entirety. Therefore, interest rate swaps are classified as Level 2 in the valuation hierarchy.

The Company's other derivatives include foreign exchange contracts. Fair value of foreign exchange derivatives uses the mid-point of daily quoted currency spot prices. A valuation model estimates fair value based on the quoted spot rates together with interest rate yield curves and forward currency rates. Since all of these inputs are observable in the market, foreign exchange derivatives are classified as Level 2 in the fair value hierarchy.

Venture capital investments

The Company values its venture capital private equity fund investments based on its capital invested in each fund, which is adjusted by management each quarter, if necessary, to arrive at its estimate of fair value. Adjustments for a fund's underlying

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

investments may be based upon comparisons to public companies, industry benchmarks, current financing round pricing, earnings multiples of comparable companies, current operating performance and future expectations, or third-party valuations. Since the inputs to the valuation are difficult to independently corroborate in the marketplace, and involve a significant degree of management judgment, venture capital investments are classified as Level 3 in the fair value hierarchy.

The following table presents assets and liabilities measured at fair value, including gross derivative assets and liabilities on a recurring basis at June 30, 2015:

(in millions)	Total	Level 1	Level 2	Level 3
Securities available for sale:				
Mortgage-backed securities	\$18,606	\$—	\$18,606	\$—
State and political subdivisions	9	—	9	—
Equity securities	17	—	17	—
U.S. Treasury	30	30	—	—
Total securities available for sale	18,662	30	18,632	—
Residential loans held for sale	318	—	318	—
Commercial loans held for sale	79	—	79	—
Total loans held for sale	397	—	397	—
Derivative assets:				
Interest rate swaps	639	—	639	—
Foreign exchange contracts	172	—	172	—
Other contracts	11	—	11	—
Total derivative assets	822	—	822	—
Venture capital investments and other investments	5	—	4	1
Total assets	\$19,886	\$30	\$19,855	\$1
Derivative liabilities:				
Interest rate swaps	\$540	\$—	\$540	\$—
Foreign exchange contracts	167	—	167	—
Other contracts	6	—	6	—
Total derivative liabilities	713	—	713	—
Total liabilities	\$713	\$—	\$713	\$—

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents assets and liabilities measured at fair value including gross derivative assets and liabilities on a recurring basis at December 31, 2014:

(in millions)	Total	Level 1	Level 2	Level 3
Securities available for sale:				
Mortgage-backed securities	\$18,606	\$—	\$18,606	\$—
State and political subdivisions	10	—	10	—
Equity securities	25	8	17	—
U.S. Treasury	15	15	—	—
Total securities available for sale	18,656	23	18,633	—
Residential loans held for sale	213	—	213	—
Commercial loans held for sale	43	—	43	—
Total loans held for sale	256	—	256	—
Derivative assets:				
Interest rate swaps	613	—	613	—
Foreign exchange contracts	170	—	170	—
Other contracts	7	—	7	—
Total derivative assets	790	—	790	—
Venture capital investments and other investments	5	—	—	5
Total assets	\$19,707	\$23	\$19,679	\$5
Derivative liabilities:				
Interest rate swaps	\$600	\$—	\$600	\$—
Foreign exchange contracts	164	—	164	—
Other contracts	9	—	9	—
Total derivative liabilities	773	—	773	—
Total liabilities	\$773	\$—	\$773	\$—

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

(in millions)	Three Months		Six Months	
	Ended June 30, 2015	Ended June 30, 2014	Ended June 30, 2015	Ended June 30, 2014
Beginning of period balance	\$1	\$6	\$5	\$5
Purchases, issuances, sales and settlements:				
Purchases	—	—	1	—
Sales	—	—	—	—
Settlements	—	—	—	—
Other net gains	—	—	—	1
Transfers from Level 3 to Level 2	—	—	(5)	—
Balance as of period end	\$1	\$6	\$1	\$6
Net unrealized gain included in net income for the year relating to assets held at period end	\$—	\$—	\$1	\$—

In March 2015, the Company transferred \$5 million of securities from Level 3 to Level 2. The fair values of these securities are based on security prices in the market that are not active.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Nonrecurring Fair Value Measurements

The following valuation techniques are utilized to measure significant assets for which the Company utilizes fair value on a nonrecurring basis:

##### Impaired Loans

The carrying amount of collateral-dependent impaired loans is compared to the appraised value of the collateral less costs to dispose and is classified as Level 2. Any excess of carrying amount over the appraised value is charged to the ALLL.

##### Mortgage Servicing Rights

MSRs do not trade in an active market with readily observable prices. MSRs are classified as Level 3 since the valuation methodology utilizes significant unobservable inputs. At June 30, 2015, the fair value was calculated using a discounted cash flow model, which used assumptions, including weighted-average life of 5.4 years (range of 2.8 - 5.9 years), weighted-average constant prepayment rate of 11.7% (range of 11.5% - 22.2%) and weighted-average discount rate of 9.8% (range of 9.1% - 18.1%). At December 31, 2014, the fair value was calculated using a discounted cash flow model, which used assumptions, including weighted-average life of 5.2 years (range of 2.8 - 6.6 years), weighted-average constant prepayment rate of 12.4% (range of 10.4% - 22.6%) and weighted-average discount rate of 9.8% (range of 9.1% - 12.1%). Refer to Note 1 “Significant Accounting Policies” to the Company’s audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014 and Note 7 “Mortgage Banking” for more information.

##### Foreclosed assets

Foreclosed assets consist primarily of residential properties. Foreclosed assets are carried at the lower of carrying value or fair value less costs to dispose. Fair value is based upon independent market prices or appraised values of the collateral and is classified as Level 2.

The following table presents gains (losses) on assets and liabilities measured at fair value on a nonrecurring basis and recorded in earnings:

(in millions)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Impaired collateral-dependent loans	(\$10)	(\$19)	(\$13)	(\$94)
MSRs	6	(1)	7	3
Foreclosed assets	(1)	—	(2)	(1)

The following tables present assets and liabilities measured at fair value on a nonrecurring basis:

(in millions)	June 30, 2015				December 31, 2014			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Impaired collateral-dependent loans	\$87	\$—	\$87	\$—	\$102	\$—	\$102	\$—
MSRs	180	—	—	180	166	—	—	166
Foreclosed assets	34	—	34	—	40	—	40	—

#### Disclosures about Fair Value of Financial Instruments

Following is a description of valuation methodologies used to estimate the fair value of financial instruments for disclosure purposes (these instruments are not recorded in the financial statements at fair value):

##### Loans and leases

For loans and leases not recorded at fair value on a recurring basis that are not accounted for as collateral-dependent impaired loans, fair value is estimated by using one of two methods: a discounted cash flow method or a securitization method. The discounted cash flow method involves discounting the expected future cash flows using current rates

which a market participant would likely use to value similar pools of loans. Inputs used in this method include observable information such as contractual cash flows (net of servicing cost) and unobservable information such as estimated prepayment speeds, credit loss exposures, and discount rates. The securitization method involves utilizing market securitization data to value the assets as if a securitization transaction had been executed. Inputs used include observable market-based MBS data and pricing adjustments based on

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

unobservable data reflecting the liquidity risk, credit loss exposure and other characteristics of the underlying loans. The internal risk-weighted balances of loans are grouped by product type for purposes of these estimated valuations. For nonaccruing loans, fair value is estimated by discounting management's estimate of future cash flows with a discount rate commensurate with the risk associated with such assets. Fair value of collateral-dependent loans is primarily based on the appraised value of the collateral.

Loans held for sale

Balances are loans that were transferred to loans held for sale that are reported at book value.

Securities Held to Maturity

The fair value of securities classified as HTM is estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flow. The pricing models used to value these securities generally begin with market prices (or rates) for similar instruments and make adjustments based on the unique characteristics of the instrument being valued. These adjustments reflect assumptions made regarding the sensitivity of each security's value to changes in interest rates and prepayment speeds.

Other investment securities

The fair value of other investment securities, such as FHLB stock and FRB stock, is assumed to approximate the cost basis of the securities. As a member of the FHLB and FRB, the Company is required to hold FHLB and FRB stock. The stock can be sold only to the FHLB and FRB upon termination of membership, or redeemed at the FHLB's or FRB's sole discretion.

Deposits

The fair value of demand deposits, checking with interest accounts, regular savings and money market accounts is the amount payable on demand at the balance sheet date. The fair value of term deposits is estimated by discounting the expected future cash flows using rates currently offered for deposits of similar remaining maturities.

Federal funds purchased and securities sold under agreements to repurchase, other short-term borrowed funds, and long-term borrowed funds

Rates currently available to the Company for debt of similar terms and remaining maturities are used to discount the expected cash flows of existing debt.

The following table is a summary of fair value for financial instruments not recorded at fair value in the unaudited interim Consolidated Financial Statements. The carrying amounts in the following table are recorded in the Consolidated Balance Sheets under the indicated captions:

(in millions)	June 30, 2015							
	Total		Level 1		Level 2		Level 3	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets:</b>								
Securities held to maturity	\$5,567	\$5,611	\$—	\$—	\$5,567	\$5,611	\$—	\$—
Other investment securities	866	866	—	—	866	866	—	—
Other loans held for sale	300	300	—	—	—	—	300	300
Loans and leases	96,538	96,700	—	—	87	87	96,451	96,613
<b>Financial Liabilities:</b>								
Deposits	100,615	100,620	—	—	100,615	100,620	—	—
Federal funds purchased and securities sold under agreements to repurchase	3,784	3,784	—	—	3,784	3,784	—	—
Other short-term borrowed funds	6,762	6,762	—	—	6,762	6,762	—	—
Long-term borrowed funds	3,890	3,871	—	—	3,890	3,871	—	—





CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions)	December 31, 2014							
	Total		Level 1		Level 2		Level 3	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets:</b>								
Securities held to maturity	\$5,148	\$5,193	\$—	\$—	\$5,148	\$5,193	\$—	\$—
Other investment securities	872	872	—	—	872	872	—	—
Other loans held for sale	25	25	—	—	—	—	25	25
Loans and leases	93,410	93,674	—	—	102	102	93,308	93,572
<b>Financial Liabilities:</b>								
Deposits	95,707	95,710	—	—	95,707	95,710	—	—
Federal funds purchased and securities sold under agreements to repurchase	4,276	4,276	—	—	4,276	4,276	—	—
Other short-term borrowed funds	6,253	6,253	—	—	6,253	6,253	—	—
Long-term borrowed funds	4,642	4,706	—	—	4,642	4,706	—	—

## NOTE 16 - REGULATORY MATTERS

As a BHC, the Company is subject to regulation and supervision by the FRB. The primary subsidiaries of the Company are its two insured depository institutions CBNA, a national banking association whose primary federal regulator is the OCC, and CBPA, a Pennsylvania-chartered savings bank regulated by the Department of Banking of the Commonwealth of Pennsylvania and supervised by the FDIC as its primary federal regulator. Under the Basel III capital framework that took effect on January 1, 2015, the Company and its banking subsidiaries must meet specific capital requirements. Basel III requirements are expressed in terms of the following ratios: (1) common equity tier 1 capital (common equity tier 1 capital/risk-weighted on- and off-balance sheet assets); (2) tier 1 capital (tier 1 capital/risk-weighted on- and off-balance sheet assets); (3) total capital (total capital/risk-weighted on- and off-balance sheet assets); and (4) tier 1 leverage (tier 1 capital/adjusted average quarterly assets). To meet the regulatory capital requirements, the Company and its banking subsidiaries must maintain minimum regulatory levels for each ratio. In addition, the Company must not be subject to a written agreement, order or capital directive with any of its regulators. Failure to meet minimum capital requirements can result in the initiation of certain actions that, if undertaken, could have a material effect on the Company's Consolidated Financial Statements.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents capital and capital ratio information evidencing the Company's transition from Basel I regulatory accounting as of December 31, 2014 to Basel III regulatory accounting as of June 30, 2015. Basel I requirements did not include the common equity tier I capital ratio. Certain Basel III requirements are subject to phase-in through 2018, and these phase-in rules are used in this report of actual regulatory ratios. In addition, the Company has declared itself as an "AOCI opt-out" institution, which means that the Company will not be required to change its methodology for recognizing in regulatory capital only a subset of unrealized gains and losses that are classified as AOCI. As an AOCI opt-out institution, the Company is not required to recognize within regulatory capital the impacts of net unrealized gains and losses on securities AFS, accumulated net gains and losses on cash-flow hedges included in AOCI, net gains and losses on certain defined benefit pension plan assets, and net unrealized gains and losses on securities held to maturity that are included in AOCI.

		Transitional Basel III				FDIC Requirements			
		Actual		Minimum Capital Adequacy		Classification as Well-capitalized			
(dollars in millions)		Amount	Ratio	Amount	Ratio	Amount	Ratio		
As of June 30, 2015		Basel III							
Common equity tier 1 capital		\$13,270	11.8	% \$5,046	4.5	% \$7,289	6.5	%	
Tier 1 capital to risk-weighted assets		13,517	12.1	6,728	6.0	8,970	8.0		
Total capital to risk-weighted assets		17,123	15.3	8,970	8.0	11,213	10.0		
Tier 1 capital to average assets (leverage)		13,517	10.4	5,180	4.0	6,475	5.0		
As of December 31, 2014		Basel I							
Tier 1 common equity		\$13,173	12.4	% Not Applicable	Not Applicable	Not Applicable	Not Applicable	%	
Tier 1 capital to risk-weighted assets		13,173	12.4	\$4,239	4.0	% \$6,358	6.0	%	
Total capital to risk-weighted assets		16,781	15.8	8,477	8.0	10,596	10.0		
Tier 1 capital to average assets (leverage)		13,173	10.6	4,982	4.0	6,227	5.0		

In accordance with federal and state banking regulations, dividends paid by the Company's banking subsidiaries to the Company itself are generally limited to the retained earnings of the respective banking subsidiaries unless specifically approved by the appropriate bank regulator. Common dividends paid in 2014 included a \$333 million special dividend, which was paid to RBS concurrently with issuance of tier 2 subordinated debt in the same amount. The Company undertook these paired transactions to reduce excess common equity without impacting the level of total regulatory capital or the total risk-based capital ratio.

The earnings impact of goodwill impairment recognized by CBNA has put the bank subsidiary in the position of having to request specific approval from the OCC before executing capital distributions to its parent, CFG. This requirement will be in place through the fourth quarter of 2015. However, irrespective of the ability of the subsidiary banks to pay dividends, the Company had liquid assets as of June 30, 2015 that were in excess of \$383 million on a non-consolidated basis, compared to an annual interest burden on existing subordinated debt of approximately \$104 million.

On March 13, 2014, the OCC determined that CBNA no longer meets the condition to own a financial subsidiary — namely that CBNA must be both well capitalized and well managed. A financial subsidiary is permitted to engage in a broader range of activities, similar to those of a financial holding company, than those permissible for a national bank itself. CBNA has two financial subsidiaries, Citizens Securities, Inc., a registered broker-dealer, and RBS Citizens Insurance Agency, Inc., a dormant entity, although it continues to collect commissions on certain outstanding insurance policies. CBNA has entered into an agreement with the OCC (the "OCC Agreement") pursuant to which the Company has developed and submitted to the OCC a remediation plan, that set forth the specific actions it will take to bring itself back into compliance with the conditions to own a financial subsidiary and the schedule for achieving that

objective. Until CBNA addresses the deficiencies to the OCC's satisfaction, CBNA will be subject to restrictions on its ability to acquire control or hold an interest in any new financial subsidiary and to commence new activities in any existing financial subsidiary without the prior consent of the OCC. The OCC Agreement provides that if CBNA fails to remediate the deficiencies it may have to divest itself of its financial subsidiaries and comply with any additional limitations or conditions on its conduct as the OCC may impose.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 17 - EXIT COSTS AND RESTRUCTURING RESERVES

For the six months ended June 30, 2015, the Company incurred \$26 million of restructuring costs, consisting of \$17 million of facilities costs in occupancy, \$6 million in outside services, and \$3 million in salaries and employee benefits, substantially completing the restructuring initiatives designed to enhance operating efficiencies and reduce expense growth. For the year ended December 31, 2014, the Company incurred \$101 million of restructuring costs related to these initiatives, including \$41 million of salaries and employee benefits, \$18 million of facilities costs (including \$6 million of building impairment) in occupancy, \$24 million in outside services, \$6 million in software expense reported in amortization of software, and \$12 million in other operating expenses.

Also in 2014, as a result of the sale of retail branches located in Illinois, the Company incurred total costs of approximately \$17 million for the year ended December 31, 2014, consisting of \$3 million of employee compensation reported in salaries and employee benefits, \$3 million of fixed assets expenses reported in equipment, \$4 million in outside services and \$7 million in other operating expenses.

For segment reporting, all of these restructuring costs are reported within Other. See Note 19 “Business Segments” for further information.

The following table includes the activity in the exit costs and restructuring reserves:

(in millions)	Salaries & Employee Benefits	Occupancy & Equipment	Other	Total
Reserve balance as of January 1, 2014	\$2	\$24	\$—	\$26
Additions	43	24	57	124
Reversals	(1	)(5	)(4	)(10 )
Utilization	(21	)(25	)(50	)(96 )
Reserve balance as of December 31, 2014	23	18	3	44
Additions	5	17	6	28
Reversals	(2	)—	—	(2 )
Utilization	(5	)(8	)(5	)(18 )
Reserve balance as of June 30, 2015	\$21	\$27	\$4	\$52

## NOTE 18 - RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in the balances, net of income taxes, of each component of AOCI:

(in millions)	Net Unrealized Gains (Losses) on Derivatives	Net Unrealized Gains (Losses) on Securities	Defined Benefit Pension Plans	Total AOCI
Balance at January 1, 2014	(\$298 )	(\$91 )	(\$259 )	(\$648 )
Other comprehensive income before reclassifications	120	188	—	308
Other-than-temporary impairment not recognized in earnings on securities	—	(21 )	—	(21 )
Amounts reclassified from other comprehensive income	13	(12 )	2	3
Net other comprehensive income	133	155	2	290
Balance at June 30, 2014	(\$165 )	\$64	(\$257 )	(\$358 )
Balance at January 1, 2015	(\$69 )	\$74	(\$377 )	(\$372 )
Other comprehensive income (loss) before reclassifications	60	(20 )	—	40
Other-than-temporary impairment not recognized in earnings on securities	—	(18 )	—	(18 )
Amounts reclassified from other comprehensive income (loss)	(4 )	(9 )	4	(9 )

Edgar Filing: CITIZENS FINANCIAL GROUP INC/RI - Form 10-Q

Net other comprehensive income (loss)	56	(47	) 4	13
Balance at June 30, 2015	(\$13	) \$27	(\$373	) (\$359

54

---

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table reports the amounts reclassified out of each component of AOCI and into the unaudited interim Consolidated Statements of Operations:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,		Affected Line Item in the unaudited interim Consolidated Statements of Operations
	2015	2014	2015	2014	
Details about AOCI Components					
Reclassification adjustment for net derivative gains (losses) included in net income:	\$17	\$18	\$35	\$36	Interest income
	(14	) (27	) (29	) (56	) Interest expense
	3	(9	) 6	(20	) Income before income tax expense
	1	(3	) 2	(7	) Income tax expense
	\$2	(\$6	) \$4	(\$13	) Net income
Reclassification of net securities gains (losses) to net income:	\$9	\$—	\$17	\$25	Securities gains, net
	(2	) (2	) (3	) (6	) Net impairment losses recognized in earnings
	7	(2	) 14	19	Income before income tax expense
	2	—	5	7	Income tax expense
	\$5	(\$2	) \$9	\$12	Net income
Reclassification of changes related to defined benefit pension plans:	(\$4	) (\$1	) (\$7	) (\$3	) Salaries and employee benefits
	(4	) (1	) (7	) (3	) Income before income tax expense
	(2	) —	(3	) (1	) Income tax expense
	(\$2	) (\$1	) (\$4	) (\$2	) Net income
Total reclassification gains (losses)	\$5	(\$9	) \$9	(\$3	) Net income

The following table presents the effects to net income of the amounts reclassified out of AOCI:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net interest income (includes \$3, (\$9), \$6 and (\$20) of AOCI reclassifications, respectively)	\$840	\$833	\$1,676	\$1,641
Provision for credit losses	77	49	135	170
Noninterest income (includes \$7, (\$2), \$14 and \$19 of AOCI reclassifications, respectively)	360	640	707	998
Noninterest expense (includes \$4, \$1, \$7 and \$3 of AOCI reclassifications, respectively)	841	948	1,651	1,758
Income before income tax expense	282	476	597	711
Income tax expense (includes \$1, (\$3), \$4 and (\$1) income tax net expense from reclassification items, respectively)	92	163	198	232
Net income	\$190	\$313	\$399	\$479

NOTE 19 - BUSINESS SEGMENTS

The Company is managed by its CEO on a segment basis. The Company's two business segments are Consumer Banking and Commercial Banking. The business segments are determined based on the products and services provided, or the type of customer served. Each segment has one or more segment heads who report directly to the CEO. The CEO has final authority over resource allocation decisions and performance assessment. The business segments reflect this management structure and the manner in which financial information is currently evaluated by the CEO. Non-segment operations are classified as Other, which includes corporate functions, the Treasury function, the securities portfolio, wholesale funding activities, intangible assets, community development, non-core assets, and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses.

#### Reportable Segments

Segment results are determined based upon the Company's management reporting system, which assigns balance sheet and income statement items to each of the business segments. The process is designed around the Company's organizational and



CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

management structure and, accordingly, the results derived are not necessarily comparable with similar information published by other financial institutions. A description of each reportable segment and table of financial results is presented below:

Consumer Banking

The Consumer Banking segment focuses on retail customers and small businesses with annual revenues of up to \$25 million. It offers traditional banking products and services, including checking, savings, home loans, student loans, credit cards, business loans and financial management services. It also operates an indirect auto financing business, providing financing for both new and used vehicles through auto dealerships. The segment's distribution channels include a branch network, ATMs and a work force of experienced specialists ranging from financial consultants, mortgage loan officers and business banking officers to private bankers. Our Consumer Banking value proposition is based on providing simple, easy to understand product offerings and a convenient banking experience with a more personalized approach.

Commercial Banking

The Commercial Banking segment primarily targets companies with annual revenues from \$25 million to \$2.5 billion and provides a full complement of financial products and solutions, including loans, leases, trade financing, deposits, cash management, commercial cards, foreign exchange, interest rate risk management, corporate finance and capital markets advisory capabilities. It focuses on middle-market companies, large corporations and institutions and has dedicated teams with industry expertise in government banking, not-for-profit, healthcare, technology, professionals, oil & gas, asset finance, franchise finance, asset-based lending, commercial real estate, private equity and sponsor finance. While the segment's business development efforts are predominantly focused in the Company's footprint, some of its specialized industry businesses also operate selectively on a national basis (such as healthcare, asset finance and franchise finance). A key component of Commercial Banking's growth strategy is to bring ideas to clients that help their businesses thrive, and in doing so, expand the loan portfolio and ancillary product sales.

Non-segment Operations

Other

In addition to non-segment operations, Other includes certain reconciling items in order to translate the segment results that are based on management accounting practices into consolidated results. For example, Other includes goodwill and any associated goodwill impairment charges.

(in millions)	As of and for the Three Months Ended June 30, 2015			
	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	\$544	\$286	\$10	\$840
Noninterest income	230	108	22	360
Total revenue	774	394	32	1,200
Noninterest expense	613	181	47	841
Profit (loss) before provision for credit losses	161	213	(15 )	359
Provision for credit losses	60	7	10	77
Income (loss) before income tax expense (benefit)	101	206	(25 )	282
Income tax expense (benefit)	35	71	(14 )	92
Net income (loss)	\$66	\$135	(\$11 )	\$190
Total average assets	\$52,489	\$42,617	\$40,415	\$135,521

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions)	As of and for the Three Months Ended June 30, 2014			
	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	\$546	\$264	\$23	\$833
Noninterest income	236	107	297	640
Total revenue	782	371	320	1,473
Noninterest expense	655	157	136	948
Profit before provision for credit losses	127	214	184	525
Provision for credit losses	59	(2)	(8)	49
Income before income tax expense	68	216	192	476
Income tax expense	24	75	64	163
Net income	44	141	128	313
Total average assets	\$48,556	\$38,022	\$40,570	\$127,148

(in millions)	As of and for the Six Months Ended June 30, 2015			
	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	\$1,077	\$562	\$37	\$1,676
Noninterest income	449	208	50	707
Total revenue	1,526	770	87	2,383
Noninterest expense	1,209	354	88	1,651
Profit (loss) before provision for credit losses	317	416	(1)	732
Provision for credit losses	123	(14)	26	135
Income (loss) before income tax expense (benefit)	194	430	(27)	597
Income tax expense (benefit)	67	148	(17)	198
Net income (loss)	\$127	\$282	(\$10)	\$399
Total average assets	\$52,048	\$42,114	\$40,267	\$134,429

(in millions)	As of and for the Six Months Ended June 30, 2014			
	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	\$1,083	\$520	\$38	\$1,641
Noninterest income	455	214	329	998
Total revenue	1,538	734	367	2,639
Noninterest expense	1,293	310	155	1,758
Profit before provision for credit losses	245	424	212	881
Provision for credit losses	129	(7)	48	170
Income before income tax expense	116	431	164	711
Income tax expense	40	149	43	232
Net income	76	282	121	479
Total average assets	\$48,085	\$37,491	\$39,959	\$125,535



CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management accounting practices utilized by the Company as the basis for presentation for segment results include the following:

FTP adjustments

The Company utilizes an FTP system to eliminate the effect of interest rate risk from the segments' net interest income because such risk is centrally managed within the Treasury function. The FTP system credits (or charges) the segments with the economic value of the funds created (or used) by the segments. The FTP system provides a funds credit for sources of funds and a funds charge for the use of funds by each segment. The sum of the interest income/expense and FTP charges/credits for each segment is its designated net interest income. The variance between the Company's cumulative FTP charges and cumulative FTP credits is offset in Other.

Provision for credit losses allocations

Provision for credit losses is allocated to each business segment based on actual net charge-offs that have been recognized by the business segment. The difference between the consolidated provision for credit losses and the business segments' net charge-offs is reflected in Other.

Income tax allocations

Income taxes are assessed to each line of business at a standard tax rate with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Other.

Expense allocations

Noninterest expenses incurred by centrally managed operations or business lines that directly support another business line's operations are charged to the applicable business line based on its utilization of those services.

Goodwill

For impairment testing purposes, the Company allocates goodwill to its Consumer Banking and Commercial Banking reporting units. For management reporting purposes, the Company presents the goodwill balance (and any related impairment charges) in Other.

Substantially all revenues generated and long-lived assets held by the Company's business segments are derived from clients that reside in the United States. Neither business segment earns revenue from a single external customer that represents 10 percent or more of the Company's total revenues.

NOTE 20 - SHARE-BASED COMPENSATION

During the six months ended June 30, 2015, the Company granted 1,108,779 Company share-based awards to employees pursuant to the Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan ("Omnibus Plan") with an aggregate grant date fair value of \$28 million, which has been estimated using the fair value of the Company's shares on the grant date. In addition, during the same period, 31,438 Company share-based awards were granted to non-employee directors pursuant to the Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan ("Directors Plan") with an aggregate grant date fair value of \$1 million.

The total number of Company unvested share-based awards as of June 30, 2015 was 3,441,718, which includes awards granted under the Citizens Financial Group, Inc. Converted Equity 2010 Deferral Plan and the Citizens

Financial Group, Inc. Converted Equity 2010 Long Term Incentive Plan (collectively, the “Converted Equity Plans”), the Omnibus Plan, and the Directors Plan. There are 61 million shares of Company common stock available for awards to be granted under the share plans (including the Citizens Financial Group, Inc. 2014 Employee Stock Purchase Plan (the “ESPP”). Upon settlement of share-based awards, the Company generally issues new shares, but may also issue shares from treasury stock.

Compensation Expense

Compensation expense related to the share plans (including the ESPP) was \$9 million for the three months ended June 30, 2015. There was no compensation expense for the three months ended June 30, 2014.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Compensation expense related to the share plans (including the ESPP) was \$15 million and \$19 million for the six months ended June 30, 2015 and 2014, respectively.

At June 30, 2015, the total unrecognized compensation expense for nonvested equity awards granted was \$24 million.

#### Equity Grants Prior to the IPO

Prior to the Company's IPO, RBS granted share-based compensation awards to employees of the Company pursuant to its various long-term incentive plans, which are administered by the RBS Performance and Remuneration Committee. Below is a summary of those awards. All share-based compensation awards granted to Company employees have been historically settled in RBS shares. Effective as of the IPO, no share-based compensation awards in respect of RBS shares will be granted to Company employees.

#### Restricted Stock Units

A restricted stock unit is the right to receive shares of stock on a future date, which may be subject to time-based vesting conditions and/or performance-based vesting conditions. Time-based restricted stock units granted historically have generally become vested ratably over a three-year period. Performance-based restricted stock units granted historically have generally become vested at the end of a three-year performance period, depending on the level of performance achieved during such period.

The fair value of each award is determined on the grant date. All awards are expensed on a straight-line basis over the requisite service period. With respect to performance-based awards, over the performance and requisite service period (i.e., vesting period) of the award, the compensation expense and the number of shares of stock expected to be issued are adjusted upward or downward based upon the probability of achievement of performance. Once vesting has occurred, the related compensation cost recognized as expense is based on actual performance and the number of shares actually issued.

#### Special IPO Awards

In March 2014, RBS granted special IPO awards to certain Citizens employees. These awards were granted half in the form of restricted stock units in respect of RBS shares and half as a fixed convertible bond. The special IPO awards are scheduled to vest 50% in March 2016 and 50% in March 2017, subject to certain conditions. Pursuant to their terms, upon the closing of the Company's IPO, these awards were converted into Company restricted stock units and the performance condition was met; however, following the IPO, these awards remain subject to the original vesting schedule and other original terms and conditions.

#### Equity Award Conversion

In conjunction with the Company's IPO, any restricted stock units granted by RBS to Company employees that were unvested at the time of the IPO and the bond portion of special IPO awards, were converted into equity-based awards in respect of CFG common stock. Converted awards are governed by the applicable Converted Equity Plan and are generally subject to the same terms and conditions as prior to conversion. However, when the awards become vested and are settled in accordance with their terms, grantees will receive shares of CFG common stock. Following the IPO, no additional awards were granted under the Converted Equity Plans.

The number of shares of CFG common stock underlying converted awards was determined by dividing (A) the product of (x) the maximum number of RBS shares underlying the awards outstanding as of the closing of the IPO and (y) the average of the closing prices of RBS shares on each of the 30 London Stock Exchange dealing days immediately prior to the pricing date of the IPO (such 30-day period, the "Conversion Period"), converted into U.S. Dollars using the average British Pound to U.S. Dollar currency rate over the Conversion Period, by (B) the price per share of CFG common stock on the pricing date of the IPO. The bond portion of the special IPO awards was converted by dividing the bond value by the price per share of CFG common stock on the pricing date of the IPO. During 2014, the Company converted 19,390,752 RBS share awards to 5,249,721 CFG share awards. The difference between the fair value of RBS restricted share units immediately preceding the conversion and the fair value of the CFG equity-based awards granted was not material. The bond portions of the Special IPO awards were converted to 524,783 CFG share awards.

Employee Share Plans Following the IPO  
Omnibus Incentive Plan

In connection with the IPO, the Company adopted the Omnibus Plan. This plan permits the Company to grant a variety of awards to employees and service providers. Certain employees have received share grants under this plan as an element of fixed compensation for service in a “Material Risk Taker” role (as defined by the European Banking Authority). These shares were fully vested at grant, but are subject to a retention period which lapses ratably over three to five years. In addition, the Company has also awarded to certain employees immediately vested shares, time-based restricted stock units and performance-based restricted stock units pursuant to the Omnibus Plan. If a dividend is paid on shares underlying the Omnibus Plan awards prior to the date

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

such shares are distributed, those dividends will be distributed following vesting in the same form as the dividend that has been paid to stockholders generally.

Director Compensation Plan

In connection with the IPO, the Company adopted the Directors Plan. Grants of restricted stock units have been made to the Company's non-employee directors under this plan as compensation for their services pursuant to the Citizens Financial Group, Inc. Directors Compensation Policy. If a dividend is paid on shares underlying the stock units prior to the date such shares are distributed, those dividends will be distributed following vesting in the same form as the dividend that has been paid to stockholders generally. In the event that a director ceases to serve on the Board of Directors prior to the vesting date for any reason other than under circumstances which would constitute cause, the restricted stock units will fully vest on the date of the director's cessation from service.

Employee Stock Purchase Plan

In connection with the IPO, the Company adopted the ESPP, which provides eligible employees an opportunity to purchase its common stock at a 10% discount, through accumulated payroll deductions. Effective as of the fourth quarter of 2014 eligible employees may contribute up to 10% of eligible compensation to the ESPP, except that the limit for the first 2014 offering period was 50% of eligible compensation. No participant may purchase shares in any year with a value exceeding \$25,000. Offering periods under the ESPP are quarterly.

Shares of CFG common stock are purchased for a participant on the last day of each quarter at a 10% discount from the fair market value (fair market value under the plan is defined as the closing price on the day of purchase). Prior to the date the shares are purchased, participants do not have any rights or privileges as a stockholder with respect to shares to be purchased at the end of the offering period.

NOTE 21 - EARNINGS PER SHARE

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in millions, except share and per-share data)	2015	2014	2015	2014
Numerator (basic and diluted):				
Net income	\$190	\$313	\$399	\$479
Less: Preferred stock dividends	—	—	—	—
Net income available to common stockholders	\$190	\$313	\$399	\$479
Denominator:				
Weighted-average common shares outstanding - basic	537,729,248	559,998,324	541,986,653	559,998,324
Dilutive common shares: share-based awards	2,180,118	—	2,817,615	—
Weighted-average common shares outstanding - diluted	539,909,366	559,998,324	544,804,268	559,998,324
Earnings per common share:				
Basic	\$0.35	\$0.56	\$0.74	\$0.86
Diluted	0.35	0.56	0.73	0.86

Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each period. Diluted EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each period, plus the effect of potential dilutive common shares such as share-based awards, using the treasury stock method. Potential dilutive common shares are excluded from the computation of diluted EPS in the periods where the effect would be antidilutive.

On August 22, 2014, the Company declared and made effective a 165,582-for-1 forward stock split of common stock. As a result, all share and per share data have been restated to reflect the effect of the split.





CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 22 - OTHER OPERATING EXPENSE

The following table presents the details of other operating expense:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Deposit insurance	\$26	\$26	\$60	\$46
Promotional expense	29	21	51	41
Settlements and operating losses	15	35	23	64
Postage and delivery	11	12	23	25
Other	58	77	115	141
Other operating expense	\$139	\$171	\$272	\$317

## NOTE 23 - SUBSEQUENT EVENTS

On August 3, 2015, RBS completed the sale of 98,900,000 shares, or 18.4%, of CFG's outstanding common stock, at a public offering price of \$26.00 per share. On the same day, CFG used the net proceeds of its public offering of \$250 million aggregate principal amount 4.350% Subordinated Notes due 2025 issued on July 31, 2015, to repurchase 9,615,384 shares of its outstanding common stock directly from RBS at \$26.00 per share. Immediately following the completion of this stock repurchase transaction, RBS owned 110,461,782 shares, or 20.9%, of CFG's outstanding common stock.

On July 21, 2015, the Company announced a quarterly cash dividend of \$0.10 per share, or \$53 million, payable on August 17, 2015 to shareholders of record at the close of business on August 3, 2015.

## CITIZENS FINANCIAL GROUP, INC.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

	Page
<u>Forward Looking Statements</u>	<u>63</u>
<u>Selected Consolidated Financial Data</u>	<u>65</u>
<u>Overview</u>	<u>67</u>
<u>Recent Events</u>	<u>67</u>
<u>Key Factors Affecting Our Business</u>	<u>68</u>
<u>Factors Affecting Comparability of Our Results</u>	<u>70</u>
<u>Principal Components of Operations and Key Performance Metrics Used By Management</u>	<u>71</u>
<u>Results of Operations - Three and Six Months Ended June 30, 2015 Compared with Three and Six Months Ended June 30, 2014</u>	<u>77</u>
<u>Highlights</u>	<u>77</u>
<u>Net Income</u>	<u>79</u>
<u>Net Interest Income</u>	<u>80</u>
<u>Noninterest Income</u>	<u>84</u>
<u>Provision for Credit Losses</u>	<u>85</u>
<u>Noninterest Expense</u>	<u>85</u>
<u>Provision for Income Taxes</u>	<u>85</u>
<u>Business Segments</u>	<u>86</u>
<u>Analysis of Financial Condition - June 30, 2015 Compared with December 31, 2014</u>	<u>93</u>
<u>Loans and Leases</u>	<u>93</u>
<u>Non-Core Assets</u>	<u>94</u>
<u>Allowance for Credit Losses and Nonperforming Assets</u>	<u>95</u>
<u>Securities</u>	<u>97</u>
<u>Deposits</u>	<u>98</u>
<u>Borrowed Funds</u>	<u>98</u>
<u>Derivatives</u>	<u>100</u>
<u>Capital</u>	<u>101</u>
<u>Liquidity</u>	<u>107</u>
<u>Off-Balance Sheet Commitments</u>	<u>110</u>
<u>Critical Accounting Estimates</u>	<u>111</u>
<u>Risk Governance</u>	<u>116</u>
<u>Market Risk</u>	<u>120</u>

CITIZENS FINANCIAL GROUP, INC.  
FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the Private Securities Litigation Reform Act of 1995. Any statement that does not describe historical or current facts is a forward-looking statement. These statements often include the words “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “goals,” “targets,” “initiatives,” “potentially,” “probably,” “projects,” “outlook” or similar expressions or future conditional verbs such as “may,” “will,” “should,” “would,” “could.”

Forward-looking statements are based upon the current beliefs and expectations of management, and on information currently available to management. Our statements speak as of the date hereof, and we do not assume any obligation to update these statements or to update the reasons why actual results could differ from those contained in such statements in light of new information or future events. We caution you, therefore, against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. While there is no assurance that any list of risks and uncertainties or risk factors is complete, important factors that could cause actual results to differ materially from those in the forward-looking statements include the following, without limitation:

Negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of nonperforming assets, charge-offs and provision expense;

The rate of growth in the economy and employment levels, as well as general business and economic conditions;

Our ability to implement our strategic plan, including the cost savings and efficiency components, and achieve our indicative performance targets;

Our ability to remedy regulatory deficiencies and meet supervisory requirements and expectations;

Liabilities resulting from litigation and regulatory investigations;

- Our capital and liquidity requirements (including under regulatory capital standards, such as the Basel III capital standards) and our ability to generate capital internally or raise capital on favorable terms;

The effect of the current low interest rate environment or changes in interest rates on our net interest income, net interest margin and our mortgage originations, mortgage servicing rights and mortgages held for sale;

Changes in interest rates and market liquidity, as well as the magnitude of such changes, which may reduce interest margins, impact funding sources and affect the ability to originate and distribute financial products in the primary and secondary markets;

The effect of changes in the level of checking or savings account deposits on our funding costs and net interest margin;

Financial services reform and other current, pending or future legislation or regulation that could have a negative effect on our revenue and businesses, including the Dodd-Frank Act and other legislation and regulation relating to bank products and services;

-

A failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors or other service providers, including as a result of cyber attacks;

Management's ability to identify and manage these and other risks; and

Any failure by us to successfully replicate or replace certain functions, systems and infrastructure provided by RBS.

In addition to the above factors, we also caution that the amount and timing of any future common stock dividends or share repurchases will depend on our financial condition, earnings, cash needs, regulatory constraints, capital requirements (including requirements of our subsidiaries), and any other factors that our Board of Directors deems relevant in making such a determination. Therefore, there can be no assurance that we will pay any dividends to holders of our common stock, or as to the

CITIZENS FINANCIAL GROUP, INC.  
FORWARD-LOOKING STATEMENTS

amount of any such dividends. In addition, the timing and manner of the sale of RBS' remaining ownership of our common stock remains uncertain, and we have no control over the manner in which RBS may seek to divest such remaining shares. Any such sale could impact the price of our shares of common stock.

More information about factors that could cause actual results to differ materially from those described in the forward-looking statements can be found under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014.

CITIZENS FINANCIAL GROUP, INC.  
SELECTED CONSOLIDATED FINANCIAL DATA

## Selected Consolidated Financial Data

We derived the summary Consolidated Operating Data for the three and six months ended June 30, 2015 and 2014 and the summary Consolidated Balance Sheet data as of June 30, 2015 from our unaudited interim Consolidated Financial Statements included in Part I, Item 1 — Financial Statements, included elsewhere in this report. Our historical results are not necessarily indicative of the results expected for any future period.

In our opinion, the unaudited interim Consolidated Financial Statements have been prepared on the same basis as the audited Consolidated Financial Statements and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the information set forth herein. Our operating results for the three and six months ended June 30, 2015 are not necessarily indicative of those to be expected for the year ending December 31, 2015 or for any future period. You should read the following selected consolidated financial data in conjunction with our unaudited interim Consolidated Financial Statements and the Notes thereto.

(dollars in millions, except per share amounts)	Three Months Ended		Six Months Ended		
	June 30, 2015	2014	June 30, 2015	2014	
<b>OPERATING DATA:</b>					
Net interest income	\$840	\$833	\$1,676	\$1,641	
Noninterest income	360	640	707	998	
Total revenue	1,200	1,473	2,383	2,639	
Provision for credit losses	77	49	135	170	
Noninterest expense	841	948	1,651	1,758	
Income before income tax expense	282	476	597	711	
Income tax expense	92	163	198	232	
Net income	\$190	\$313	\$399	\$479	
Net income per common share - basic <sup>(2)</sup>	0.35	0.56	0.74	0.86	
Net income per common share - diluted <sup>(2)</sup>	0.35	0.56	0.73	0.86	
<b>OTHER OPERATING DATA:</b>					
Return on average common equity <sup>(3) (6)</sup>	3.94	% 6.41	% 4.15	% 4.96	%
Return on average tangible common equity <sup>(1) (6)</sup>	5.90	9.59	6.21	7.45	
Return on average total assets <sup>(4) (6)</sup>	0.56	0.99	0.60	0.77	
Return on average total tangible assets <sup>(1) (6)</sup>	0.59	1.04	0.63	0.81	
Efficiency ratio <sup>(1)</sup>	70.02	64.33	69.27	66.58	
Net interest margin <sup>(5) (6)</sup>	2.72	2.87	2.74	2.88	

CITIZENS FINANCIAL GROUP, INC.  
SELECTED CONSOLIDATED FINANCIAL DATA

(in millions)	June 30, 2015	December 31, 2014		
<b>BALANCE SHEET DATA:</b>				
Total assets	\$137,251	\$132,857		
Loans and leases <sup>(7)</sup>	96,538	93,410		
Allowance for loan and lease losses	1,201	1,195		
Total securities	25,095	24,676		
Goodwill	6,876	6,876		
Total liabilities	117,665	113,589		
Total deposits	100,615	95,707		
Federal funds purchased and securities sold under agreements to repurchase	3,784	4,276		
Other short-term borrowed funds	6,762	6,253		
Long-term borrowed funds	3,890	4,642		
Total stockholders' equity	19,586	19,268		
<b>OTHER BALANCE SHEET DATA:</b>				
<b>Asset Quality Ratios:</b>				
Allowance for loan and lease losses as a percentage of total loans and leases	1.24	%	1.28	%
Allowance for loan and lease losses as a percentage of nonperforming loans and leases	114		109	
Nonperforming loans and leases as a percentage of total loans and leases	1.09		1.18	
<b>Capital Ratios:<sup>(8)</sup></b>				
CET1 capital ratio <sup>(9)</sup>	11.8		12.4	
Tier 1 capital ratio <sup>(10)</sup>	12.1		12.4	
Total capital ratio <sup>(11)</sup>	15.3		15.8	
Tier 1 leverage ratio <sup>(12)</sup>	10.4		10.6	

<sup>(1)</sup> These measures are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures.”

<sup>(2)</sup> EPS information reflects a 165,582-for-1 forward stock split effective on August 22, 2014.

<sup>(3)</sup> “Return on average common equity” is defined as net income divided by average common equity.

<sup>(4)</sup> “Return on average total assets” is defined as net income divided by average total assets.

<sup>(5)</sup> “Net interest margin” is defined as net interest income divided by average total interest-earning assets.

<sup>(6)</sup> Operating ratios for the periods ended June 30, 2015 and 2014 are presented on an annualized basis.

<sup>(7)</sup> Excludes loans held for sale of \$697 million and \$281 million as of June 30, 2015 and December 31, 2014, respectively.

<sup>(8)</sup> Basel III transitional rules for institutions applying the Standardized approach to calculating risk-weighted assets became effective January 1, 2015. The capital ratios and associated components as of June 30, 2015 are prepared using the Basel III Standardized transitional approach. The capital ratios and associated components for periods December 31, 2014 and prior are prepared under the Basel I general risk-based capital rule.

<sup>(9)</sup> CET1 under Basel III replaced the concept of tier 1 common capital that existed under Basel I effective January 1, 2015. “Common equity tier 1 capital ratio” as of June 30, 2015 represents CET1 divided by total risk-weighted assets as defined under Basel III Standardized approach. The “tier 1 common capital ratio” reported prior to January 1, 2015, represented tier 1 common equity divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

<sup>(10)</sup> “Tier 1 capital ratio” is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under Basel III Standardized approach. The “tier 1 capital ratio” reported prior to January 1, 2015, represented tier 1 capital divided by total



risk-weighted assets as defined under the Basel I general risk-based capital rule.

(11) “Total capital ratio” is total capital divided by total risk-weighted assets as defined under Basel III Standardized approach. The “Total capital ratio” reported prior to January 1, 2015, represented total capital divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

(12) “Tier 1 leverage ratio” is tier 1 capital divided by quarterly average total assets as defined under Basel III Standardized approach. The “tier 1 leverage ratio” reported prior to January 1, 2015, represented tier 1 capital divided by quarterly average total assets as defined under the Basel I general risk-based capital rule.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

We were the 13<sup>th</sup> largest retail bank holding company in the United States as of June 30, 2015, according to SNL Financial, with \$137.3 billion of total assets. Headquartered in Providence, Rhode Island, we deliver a broad range of retail and commercial banking products and services to individuals, institutions and companies. Our approximately 17,900 employees strive to meet the financial needs of customers and prospects through approximately 1,200 branches and approximately 3,200 ATMs operated in an 11-state footprint across the New England, Mid-Atlantic and Midwest regions and through our online, telephone and mobile banking platforms. We conduct our banking operations through our two wholly-owned banking subsidiaries, Citizens Bank, N.A. and Citizens Bank of Pennsylvania.

We operate our business through two operating segments: Consumer Banking and Commercial Banking. Consumer Banking accounted for \$50.6 billion and \$46.9 billion, or approximately 53% of our average loan and lease balances (including loans held for sale) for both the six months ended June 30, 2015 and 2014. Consumer Banking serves retail customers and small businesses with annual revenues of up to \$25 million with products and services that include deposit products, mortgage and home equity lending, student loans, auto financing, credit cards, business loans and wealth management and investment services.

Commercial Banking accounted for \$40.9 billion and \$37.0 billion, or approximately 43% and 42% of our average loan and lease balances (including loans held for sale) for the six months ended June 30, 2015 and 2014, respectively. Commercial Banking offers a broad complement of financial products and solutions, including lending and leasing, trade financing, deposit and treasury management, foreign exchange and interest rate risk management, corporate finance and debt and equity capital markets capabilities.

As of June 30, 2015 and December 31, 2014, we had \$2.7 billion and \$3.1 billion, respectively, of non-core asset balances, which were included in Other along with our treasury function, securities portfolio, wholesale funding activities, goodwill, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to the Consumer Banking or Commercial Banking segments. Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. We have actively managed these assets down since they were designated as non-core on June 30, 2009, and the portfolio decreased a further 12% as of June 30, 2015 compared to December 31, 2014. The largest component of our non-core portfolio is our home equity products serviced by others (a portion of which we now service internally).

Recent Events

On August 3, 2015, RBS completed the sale of 98,900,000 shares, or 18.4%, of CFG's outstanding common stock, at a public offering price of \$26.00 per share. On the same day, CFG used the net proceeds of its public offering of \$250 million aggregate principal amount 4.350% Subordinated Notes due 2025 issued on July 31, 2015, to repurchase 9,615,384 shares of its outstanding common stock directly from RBS at \$26.00 per share. Immediately following the completion of this stock repurchase transaction, RBS owned 110,461,782 shares, or 20.9%, of CFG's outstanding common stock. See Note 9 "Stockholders' Equity" and Note 23 "Subsequent Events" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 - Financial Statements, included elsewhere in this report.

On July 21, 2015, in connection with the release of our second quarter financial results, we highlighted that:

• We continue to execute broadly well against our key strategic initiatives. This has resulted in positive operating leverage, excluding restructuring charges and special items, which is delivering improved financial performance.

• We have developed a series of new revenue and efficiency initiatives intended primarily to offset a slower build on select fee-based businesses, and the effect of net interest margin pressure.

The current forward fed funds curve creates a revenue headwind in 2016 versus prior expectation given our asset-sensitive balance sheet. As a result, achievement of our target of a 10% return on ROTCE run rate by the end of 2016 is likely pushed out.

On April 6, 2015, we completed a private offering of \$250 million, or 250,000 shares, of 5.500% fixed-to-floating rate non-cumulative perpetual Series A Preferred Stock, par value of \$25.00 per share with a liquidation preference \$1,000 per share (the "Preferred Stock"). The net proceeds of the Preferred Stock offering were used to repurchase 10,473,397

shares of our common stock from RBS, at a purchase price equal to the volume-weighted average price of our common stock for all traded volume over the five trading days preceding the repurchase agreement date of April 1, 2015. See Note 9 “Stockholders’ Equity” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 - Financial Statements, included elsewhere in this report.

On March 30, 2015, RBS completed the sale of 155,250,000 shares, or 28%, of our outstanding common stock at a price to the public of \$23.75 per share.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Key Factors Affecting Our Business

Macro-economic conditions

Our business is affected by national and regional economic conditions, as well as the perception of future conditions and economic prospects. The significant macro-economic factors that impact our business include the rate of U.S. economic expansion, unemployment levels, the health of the housing market, inflation and interest rates.

The U.S. economy continued to expand at a moderate pace, with real GDP rising by 2.3% in the three months ended June 30, 2015, following 0.6% growth in the three months ended March 31, 2015. Growth in household spending has been moderate and the housing sector has shown additional improvement with the three month average of existing home sales rising to 5.3 million units from 5.0 million in the previous quarter. Business fixed investment and net exports remained soft.

The labor market continued to improve, with solid job gains and declining unemployment. The U.S. unemployment rate dropped to 5.3% at June 30, 2015 from 5.5% at March 31, 2015. Average monthly nonfarm payrolls increased by 221,000 in the three months ended June 30, 2015, after increasing a revised 195,000 in the three months ended March 31, 2015.

The FRB maintained very accommodative monetary policy conditions during the three months ended June 30, 2015, continuing to target a zero to 0.25% federal funds rate range at the short end of the yield curve. Interest rates remain relatively low. See “—Interest rates” below for further discussion of the impact of interest rates on our results. Inflation levels remain below the FRB's longer-term objective of 2%. Further labor market improvement and the dissipation of the effects of a decline in energy and import prices is expected to bring inflation closer to the FRB's inflation objective.

Credit trends

Credit trends continued to improve in the second quarter of 2015 as evidenced by a continued reduction in nonperforming loans year over year. Net charge-offs in the second quarter of 2015 of \$78 million increased \$10 million from \$68 million in the second quarter of 2014. The increase in net charge-offs is tied to higher balances and lower commercial recoveries. Annualized net charge-offs as a percentage of total average loans increased slightly to 0.33% in the second quarter of 2015, compared to 0.31% in the second quarter of 2014.

Credit trends continued to improve in the first six months of 2015 as evidenced by a continued reduction in both net charge-offs and nonperforming loans year over year. Net charge-offs in the first six months of 2015 of \$132 million decreased \$23 million from \$155 million in the first six months of 2014, driven by improving credit conditions and recoveries. Annualized net charge-offs as a percentage of total average loans improved to 0.28% in the first six months of 2015, compared to 0.36% in the first six months of 2014. Nonperforming loans also improved year over year from 1.35% of total loans at June 30, 2014 to 1.09% at June 30, 2015. Asset quality remained strong and within expectations.

Interest rates

Net interest income is our largest source of revenue and is the difference between the interest earned on interest-earning assets (usually loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (usually deposits and borrowings). The level of net interest income is primarily a function of the average balance of interest-earning assets, the average balance of interest-bearing liabilities and the spread between the contractual yield on such assets and the contractual cost of such liabilities. These factors are influenced by both the pricing and mix of interest-earning assets and interest-bearing liabilities which, in turn, are impacted by external factors such as local economic conditions, competition for loans and deposits, the monetary policy of the FRB and market interest rates. For further discussion, refer to “—Risk Governance” and “—Market Risk — Non-Trading Risk”. The cost of our deposits and short-term wholesale borrowings is largely based on short-term interest rates, which are primarily driven by the FRB's actions. However, the yields generated by our loans and securities are typically driven by both short-term and long-term interest rates, which are set by the market or, at times, by the FRB's actions. The level of net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. In 2014 and through the six months ended June 30, 2015, short-term and long-term interest rates

remained at very low levels by historical standards, with many benchmark rates, such as the federal funds rate and one- and three-month LIBOR, near zero. Further declines in the yield curve or a decline in longer-term yields relative to short-term yields (a flatter yield curve) would have an adverse impact on our net interest margin and net interest income.

In 2014 and through the six months ended June 30, 2015, the FRB maintained a highly accommodative monetary policy, and indicated that this policy would remain in effect for a considerable time after its asset purchase program ended on October

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

29, 2014 and the economic recovery strengthens in the United States. More recently the FRB has discussed ways to normalize monetary policy, specifically steps to raise the federal funds rate and other short-term interest rates to more normal levels. As of June 30, 2015, the FRB had ended its asset purchases of Treasury securities and agency mortgage-backed securities. However, until further notice, the FRB will continue to re-invest runoff from its \$1.7 trillion mortgage-backed portfolio.

Regulatory trends

We are subject to extensive regulation and supervision, which continue to evolve as the legal and regulatory framework governing our operations continues to change. The current operating environment also has heightened regulatory expectations around many regulations including consumer compliance, the Bank Secrecy Act, and anti-money laundering compliance and increased internal audit activities. As a result of these heightened expectations, we expect to incur additional costs for additional compliance personnel or professional fees associated with advisors and consultants.

Dodd-Frank regulation

As described under "Regulation and Supervision" in Part I, Item 1 — Business included in our Annual Report on Form 10-K for the year ended December 31, 2014, we are subject to a variety of laws and regulations, including the Dodd-Frank Act. The Dodd-Frank Act is complex, and many aspects of the Dodd-Frank Act are subject to final rulemaking or phased implementation that will take effect over several years. The Dodd-Frank Act will continue to impact our earnings through fee reductions, higher costs and imposition of new restrictions on us. The Dodd-Frank Act may also continue to have a material adverse impact on the value of certain assets and liabilities held on our balance sheet. The ultimate impact of the Dodd-Frank Act on our business will depend on regulatory interpretation and rulemaking as well as the success of any of our actions to mitigate the negative impacts of certain provisions. Key parts of the Dodd-Frank Act that specifically impact our business are the repeal of a previous prohibition against payment of interest on demand deposits, which became effective in July 2011, the introduction of a capital planning and stress-testing framework developed by the FRBG, known as CCAR and DFAST. The DFAST process projects net income, loan losses and capital ratios over a nine-quarter horizon under hypothetical, stressful macroeconomic and financial market scenarios developed by the FRBG as well as certain mandated assumptions about capital distributions prescribed in the DFAST rule.

Twice annually, in March and September, we publish estimated impacts of stress, as required by the CCAR and DFAST processes which may be accessed on our regulatory filings and disclosures page on <http://investor.citizensbank.com>. Consistent with the purpose of these exercises and the assumptions used to assess our performance during hypothetical economic conditions, the projected results under the required stress scenarios show severe negative impacts on earnings. However, these pro forma results should not be interpreted to be management expectations in light of the current economic and operating environment. During March 2015, the Federal Reserve also published results from the latest supervisory stress tests performed for and by large bank holding companies supervised by the Federal Reserve (See FRB website). These tests are conducted and published by the FRB annually in fulfillment of both CCAR and DFAST requirements.

Repeal of the prohibition on depository institutions paying interest on demand deposits

We began offering interest-bearing corporate checking accounts after the 2011 repeal of the prohibition on depository institutions paying interest on demand deposits. Currently, industrywide interest rates for this product are very low and thus far the impact of the repeal has not had a significant effect on our results. However, market rates could increase more significantly in the future. If we need to pay higher interest rates on checking accounts to maintain current clients or attract new clients, our interest expense would increase, perhaps materially. Furthermore, if we fail to offer interest rates at a sufficient level to retain demand deposits, our core deposits may be reduced, which would require us to obtain funding in other ways or limit potential future asset growth.

Comprehensive Capital Analysis and Review

CCAR is an annual exercise by the FRBG to ensure that the largest bank holding companies have sufficient capital to continue operations throughout times of economic and financial stress and robust, forward-looking capital planning processes that account for their unique risks.

As part of CCAR, the FRBG evaluates institutions' capital adequacy, internal capital adequacy assessment processes and their plans to make capital distributions, such as dividend payments or stock repurchases. The FRBG may either object to our capital plan, in whole or in part, or provide a notice of non-objection. If the FRBG objects to our capital plan, we may not make any capital distribution other than those with respect to which the FRBG has indicated its non-objection.

In March 2015, the FRBG assessed our current capital plan as submitted and documented under the CCAR process and raised no objection to the plan. Unless we choose to file an amended capital plan prior to April 2016, the maximum levels at which

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

we may declare dividends and repurchase shares of our common stock between March 31, 2015 and June 30, 2016 are now governed by our 2015 capital plan, subject to actual financial performance and ongoing compliance with internal governance and all other regulatory requirements.

Basel III final rules applicable to us and our banking subsidiaries

In July 2013, the Federal Reserve Board, OCC, and FDIC issued the U.S. Basel III final rules. The final rules implement the Basel III capital framework and certain provisions of the Dodd-Frank Act, including the Collins Amendment. Certain aspects of the final rules, such as the new minimum capital ratios, became effective on January 1, 2015. In order to comply with the new capital requirements, we established internal capital ratio targets that meet or exceed U.S. regulatory expectations under fully phased-in Basel III rules, and increased our capital requirements in anticipation of the transition that is underway.

HELOC Payment Shock

Recent attention has been given by regulators, rating agencies, and the general press regarding the potential for increased exposure to credit losses associated with HELOCs that were originated during the period of rapid home price appreciation between 2003 and 2007. Industrywide, many of the HELOCs originated during this timeframe were structured with an extended interest-only payment period followed by a requirement to convert to a higher payment amount that would begin fully amortizing both principal and interest beginning at a certain date in the future. As of June 30, 2015, approximately 23% of our \$15.4 billion HELOC portfolio, or \$3.5 billion in drawn balances were subject to a payment reset or balloon payment between July 1, 2015 and December 31, 2017, including \$188 million in balloon balances where full payment is due at the end of a ten-year interest only draw period.

To help manage this exposure, in September 2013, we launched a comprehensive program designed to provide heightened customer outreach to inform, educate and assist customers through the reset process as well as to offer alternative financing and forbearance options. Preliminary results indicate that our efforts to assist customers at risk of default have successfully reduced delinquency and charge-off rates compared to our original expectations.

As of June 30, 2015, for the \$1.6 billion of our HELOC portfolio that was originally structured with a reset period in 2013 and 2014, 93% of the balances were refinanced, paid off or were current on payments, 4% were past due and 3% had been charged off. As of June 30, 2015, for the \$1.3 billion in balances originally structured with a reset period in 2015, 95.6% of the balances were refinanced, paid off or were current on payments, 3.7% were past due and 0.6% had been charged off. A total of \$551 million of these balances are scheduled to reset in the last six months of 2015.

Factors that affect our future expectations for charge-off risk for the portion of our HELOC portfolio subject to reset periods in the future include improved loan-to-value ratios resulting from continued home price appreciation, stable portfolio credit score profiles and more robust loss mitigation efforts.

Factors Affecting Comparability of Our Results

Investment in our business

We regularly incur expenses associated with investments in our infrastructure and, from 2010 to 2014, we invested more than \$1.3 billion in infrastructure and technology, and plan to invest a total of \$240 million in 2015 and about \$220 million in 2016. We invested \$100 million in our infrastructure spend in the first six months of 2015. These investments, which are designed to lower our costs and improve our customer experience, include significant programs to enhance our resiliency, upgrade customer-facing technology and streamline operations. Recent significant investments included the 2013 launch of our new teller system, new commercial loan platform and new auto loan platform and the 2013 upgrade of the majority of our ATM network, including equipping more than 1,450 ATMs with advanced deposit-taking functionality as well as additional investment in our Treasury Services platform in 2014. In 2015 we are enhancing our data resiliency by investing in a new back up data center. These investments also involved spending to prepare for the planned rollout of our new mortgage platform. We expect that these investments will increase our long-term overall efficiency and add to our capacity to increase revenue.

Operating expenses to operate as a fully independent public company

As part of our transition to a stand-alone company, we expect to incur cumulative one-time expenditures of approximately \$52 million through the end of 2015, including capitalized costs of approximately \$18 million, as well as ongoing incremental expenses of approximately \$34 million per year. These ongoing costs include higher local



charges associated with exiting worldwide vendor relationships and incremental expenses to support information technology, compliance, corporate governance, regulatory, financial and risk infrastructure that are necessary to enable us to operate as a fully stand-alone public company.

70

---

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Principal Components of Operations and Key Performance Metrics Used by Management

As a banking institution, we manage and evaluate various aspects of both our results of operations and our financial condition. We evaluate the levels and trends of the line items included in our balance sheet and statement of operations, as well as various financial ratios that are commonly used in our industry. We analyze these ratios and financial trends against our own historical performance, our budgeted performance and the financial condition and performance of comparable banking institutions in our region and nationally.

The primary line items we use in our key performance metrics to manage and evaluate our statement of operations include net interest income, noninterest income, total revenue, provision for credit losses, noninterest expense and net income (loss). The primary line items we use in our key performance metrics to manage and evaluate our balance sheet data include loans and leases, securities, allowance for credit losses, deposits, borrowed funds and derivatives.

Net interest income

Net interest income is the difference between the interest earned on interest-earning assets (usually loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (usually deposits and borrowings). The level of net interest income is primarily a function of the average balance of interest-earning assets, the average balance of interest-bearing liabilities and the spread between the contractual yield on such assets and the cost of such liabilities. Net interest income is impacted by the relative mix of interest-earning assets and interest-bearing liabilities, movements in market interest rates, levels of nonperforming assets and pricing pressure from competitors. The mix of interest-earning assets is influenced by loan demand and by management's continual assessment of the rate of return and relative risk associated with various classes of interest-earning assets.

The mix of interest-bearing liabilities is influenced by management's assessment of the need for lower cost funding sources weighed against relationships with customers and growth requirements and is impacted by competition for deposits in our market and the availability and pricing of other sources of funds.

Noninterest income

The primary components of our noninterest income are service charges and fees, card fees, trust and investment services fees and securities gains, net.

Total revenue

Total revenue is the sum of our net interest income and our noninterest income.

Provision for credit losses

The provision for credit losses is the amount of expense that, based on our judgment, is required to maintain the allowance for credit losses at an amount that reflects probable losses inherent in the loan portfolio at the balance sheet date and that, in management's judgment, is appropriate under relevant accounting guidance. The provision for credit losses includes the provision for loan and lease losses as well as the provision for unfunded commitments. The determination of the amount of the allowance is complex and involves a high degree of judgment and subjectivity. For additional information regarding the provision for credit losses, see "—Critical Accounting Estimates — Allowance for Credit Losses," Note 1 "Significant Accounting Policies" to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014 and Note 4 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

Noninterest expense

Noninterest expense includes salaries and employee benefits, outside services, occupancy expense, equipment expense, amortization of software, goodwill impairment, and other operating expenses.

Net income

We evaluate our net income based on measures including return on average common equity, return on average total assets, return on average tangible common equity and efficiency ratio.

71

---

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Loans and leases

We classify our loans and leases pursuant to the following classes: commercial, commercial real estate, leases, residential mortgages, home equity loans, home equity lines of credit, home equity loans serviced by others, home equity lines of credit serviced by others, automobile, student, credit cards and other retail.

Loans are reported at the amount of their outstanding principal, net of charge-offs, unearned income, deferred loan origination fees and costs and unamortized premiums or discounts (on purchased loans). Deferred loan origination fees and costs and purchase discounts and premiums are amortized as an adjustment of yield over the life of the loan, using the level yield interest method. Unamortized amounts remaining upon prepayment or sale are recorded as interest income or gain (loss) on sale, respectively. Credit card receivables include billed and uncollected interest and fees.

Leases are classified at the inception of the lease by type. Lease receivables, including leveraged leases, are reported at the aggregate of lease payments receivable and estimated residual values, net of unearned and deferred income, including unamortized investment credits. Lease residual values are reviewed at least annually for other-than-temporary impairment, with valuation adjustments recognized currently against noninterest income. Leveraged leases are reported net of non-recourse debt. Unearned income is recognized to yield a level rate of return on the net investment in the leases.

Mortgage loans held for sale are carried at fair value.

Securities

Our securities portfolio is managed to seek return while maintaining prudent levels of quality, market risk and liquidity. Investments in debt and equity securities are carried in four portfolios: AFS, HTM, trading account assets and other investment securities. We determine the appropriate classification at the time of purchase. Securities in our AFS portfolio will be held for indefinite periods of time and may be sold in response to changes in interest rates, changes in prepayment risk or other factors relevant to our asset and liability strategy. Securities in our AFS portfolio are carried at fair value, with unrealized gains and losses reported in OCI, as a separate component of stockholders' equity, net of taxes. Securities are classified as HTM because we have the ability and intent to hold the securities to maturity, and securities in our HTM portfolio are carried at amortized cost. Debt and equity securities that are bought and held principally for the purpose of being sold in the near term are classified as trading account assets and are carried at fair value. Realized and unrealized gains and losses on such assets are reported in noninterest income. Other investment securities are composed mainly of FHLB stock and FRB stock, which are carried at cost.

Allowance for credit losses

Our estimate of probable losses in the loan and lease portfolios is recorded in the allowance for loan and lease losses and the reserve for unfunded lending commitments. Together these are referred to as the allowance for credit losses. We evaluate the adequacy of the allowance for credit losses using the following ratios: allowance for loan and lease losses as a percentage of total loans and leases; allowance for loan and lease losses as a percentage of nonperforming loans and leases; and nonperforming loans and leases as a percentage of total loans and leases. For additional information, see “—Critical Accounting Estimates — Allowance for Credit Losses,” Note 1 “Significant Accounting Policies” to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014 and Note 4 “Allowance for Credit Losses, Nonperforming Assets and Concentrations of Credit Risk” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

Deposits

Our deposits include: on demand checking, checking with interest, regular savings accounts, money market accounts and term deposits.

**Borrowed funds**

As of June 30, 2015, our total short-term borrowed funds included federal funds purchased, securities sold under agreement to repurchase, the current portion of FHLB advances and other short-term borrowed funds. As of June 30, 2015, our long-term borrowed funds included subordinated debt, unsecured notes, Federal Home loan advances and other long-term borrowed funds. For additional information, see “—Analysis of Financial Condition — Borrowed Funds,” and Note 8 “Borrowed Funds” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

**Derivatives**

We use pay-fixed swaps to synthetically lengthen liabilities and offset duration in fixed-rate assets.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

During the fourth quarter of 2014, we entered into an interest rate swap agreement to manage the interest rate exposure on our medium term fixed-rate borrowings. This agreement involves the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the life of the agreement.

We also use receive-fixed swaps to minimize the exposure to variability in the interest cash flows on our floating rate assets. The assets and liabilities recorded for derivatives designated as hedges reflect the market value of these hedge instruments.

We also sell interest rate swaps and foreign exchange forwards to commercial customers. Offsetting swap and forward agreements are simultaneously transacted to minimize our market risk associated with the customer derivative products. The assets and liabilities recorded for derivatives not designated as hedges reflect the market value of these transactions. For additional information, see “—Analysis of Financial Condition — Derivatives,” and Note 12 “Derivatives” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

Key Performance Metrics and Non-GAAP Financial Measures

We consider various measures when evaluating our performance and making day-to-day operating decisions, as well as evaluating capital utilization and adequacy, including:

• Return on average common equity, which we define as net income divided by average common equity;

• Return on average tangible common equity, which we define as net income divided by average common equity excluding average goodwill, (net of related deferred tax liability), and average other intangibles;

• Return on average total assets, which we define as net income divided by average total assets;

• Return on average total tangible assets, which we define as net income divided by average total assets excluding average goodwill, (net of related deferred tax liability), and average other intangibles;

• Efficiency ratio, which we define as the ratio of our total noninterest expense to the sum of net interest income and total noninterest income. We measure our efficiency ratio to evaluate the efficiency of our operations as it helps us monitor how costs are changing compared to our income. A decrease in our efficiency ratio represents improvement; and

• Net interest margin, which we calculate by dividing annualized net interest income for the period by average total interest-earning assets, is a key measure that we use to evaluate our net interest income.

Certain of the above financial measures, including return on average tangible common equity, return on average total tangible assets and the efficiency ratio are not recognized under GAAP. In addition, we present net income and return on average tangible common equity, net of restructuring charges and special items for the three and six months ended June 30, 2015 and 2014. We believe these non-GAAP measures provide useful information to investors because these are among the measures used by our management team to evaluate our operating performance and make day-to-day operating decisions. In addition, we believe restructuring charges and special items in any period do not reflect the operational performance of the business in that period and, accordingly, it is useful to consider these line items with and without restructuring charges and special items. We believe this presentation also increases comparability of period-to-period results.

We also considered pro forma capital ratios defined by banking regulators but not effective at each period end to be non-GAAP financial measures. Since analysts and banking regulators may evaluate our capital adequacy using these pro forma ratios, we believe they are useful to provide investors the ability to assess our capital adequacy on the same basis.

Other companies may use similarly titled non-GAAP financial measures that are calculated differently from the way we calculate such measures. Accordingly, our non-GAAP financial measures may not be comparable to similar measures used by other companies. We caution investors not to place undue reliance on such non-GAAP measures, but instead to consider them with the most directly comparable GAAP measure. Non-GAAP measures have limitations as analytical tools, and should not be considered in isolation, or as a substitute for our results reported under GAAP.



CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table reconciles non-GAAP financial measures to GAAP:

(dollars in millions, except per-share amounts)	Ref.	As of and for the Three Months Ended June 30,		As of and for the Six Months Ended June 30,		
		2015	2014	2015	2014	
Net income (GAAP)	A	\$190	\$313	\$399	\$479	
Return on average tangible common equity:						
Average common equity (GAAP)		\$19,391	\$19,607	\$19,399	\$19,489	
Less: Average goodwill (GAAP)		6,876	6,876	6,876	6,876	
Less: Average other intangibles (GAAP)		5	7	5	7	
Add: Average deferred tax liabilities related to goodwill (GAAP)		437	369	430	360	
Average tangible common equity (non-GAAP)	B	\$12,947	\$13,093	\$12,948	\$12,966	
Return on average tangible common equity (non-GAAP) <sup>(1)</sup>	A/B	5.90	% 9.59	% 6.21	% 7.45	%
Return on average total tangible assets:						
Average total assets (GAAP)		\$135,521	\$127,148	\$134,429	\$125,535	
Less: Average goodwill (GAAP)		6,876	6,876	6,876	6,876	
Less: Average other intangibles (GAAP)		5	7	5	7	
Add: Average deferred tax liabilities related to goodwill (GAAP)		437	369	430	360	
Average tangible assets (non-GAAP)	C	\$129,077	\$120,634	\$127,978	\$119,012	
Return on average total tangible assets (non-GAAP) <sup>(1)</sup>	A/C	0.59	% 1.04	% 0.63	% 0.81	%
Efficiency ratio:						
Noninterest expense (GAAP)	D	\$841	\$948	\$1,651	\$1,758	
Net interest income (GAAP)		840	833	1,676	1,641	
Noninterest income (GAAP)		360	640	707	998	
Total revenue (GAAP)	E	\$1,200	\$1,473	\$2,383	\$2,639	
Efficiency ratio (non-GAAP)	D/E	70.02	% 64.33	% 69.27	% 66.58	%
Noninterest expense excluding restructuring charges and special items:						
Noninterest expense (GAAP)	D	\$841	\$948	\$1,651	\$1,758	
Less: Restructuring charges (GAAP)		25	103	26	103	
Less: Special items <sup>(2)</sup>		15	12	24	12	
Noninterest expense, excluding restructuring charges and special items (non-GAAP)	F	\$801	\$833	\$1,601	\$1,643	
Net income, excluding restructuring charges and special items:						
Net income (GAAP)	A	\$190	\$313	\$399	\$479	
Add: Restructuring charges (GAAP)		15	64	16	64	
Less: Net gain on the Chicago Divestiture (GAAP)		—	180	—	180	
Add: Special items <sup>(2)</sup>		10	8	15	8	
Net income, excluding restructuring charges and special items (non-GAAP)	G	\$215	\$205	\$430	\$371	



Return on average tangible common equity, excluding restructuring charges and special items (non-GAAP) <sup>(1)</sup>	G/B 6.67	% 6.28	% 6.70	% 5.77	%
---	----------	--------	--------	--------	---

<sup>(1)</sup> Ratios for the periods ended June 30, 2015 and 2014 are presented on an annualized basis.

<sup>(2)</sup> Special items include expenses related to rebranding, separation from RBS, and regulatory expenses.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

(dollars in millions)	Ref.	As of and for the Three Months Ended June 30, 2015				2014				
		Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated	
Net income:										
Net income (loss) (GAAP)	H	\$66	\$135	(\$11 )	\$190	\$44	\$141	\$128	\$313	
Efficiency ratio:										
Total revenue (GAAP)	I	\$774	\$394	\$32	\$1,200	\$782	\$371	\$320	\$1,473	
Noninterest expense (GAAP)	J	\$613	\$181	\$47	\$841	\$655	\$157	\$136	\$948	
Efficiency ratio (non-GAAP)	J/I	79.25 %	46.07 %	NM	70.02 %	83.61 %	42.36 %	NM	64.33 %	
Return on average total tangible assets:										
Average total assets (GAAP)		\$52,489	\$42,617	\$40,415	\$135,521	\$48,556	\$38,022	\$40,570	\$127,148	
Less: Average goodwill (GAAP)		—	—	6,876	6,876	—	—	6,876	6,876	
Less: Average other intangibles (GAAP)		—	—	5	5	—	—	7	7	
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	437	437	—	—	369	369	
Average total tangible assets (non-GAAP)	K	\$52,489	\$42,617	\$33,971	\$129,077	\$48,556	\$38,022	\$34,056	\$120,634	
Return on average total tangible assets (non-GAAP) <sup>(1)</sup>	H/K	0.51 %	1.27 %	NM	0.59 %	0.37 %	1.50 %	NM	1.04 %	
Return on average tangible common equity:										
Average common equity (GAAP) <sup>(3)</sup>		\$4,681	\$4,625	\$10,085	\$19,391	\$4,640	\$4,129	\$10,838	\$19,607	
Less: Average goodwill (GAAP)		—	—	6,876	6,876	—	—	6,876	6,876	
Less: Average other intangibles (GAAP)		—	—	5	5	—	—	7	7	
		—	—	437	437	—	—	369	369	

Add: Average  
deferred tax  
liabilities related to  
goodwill (GAAP)

Average tangible common equity (non-GAAP) <sup>(3)</sup>	L	\$4,681	\$4,625	\$3,641	\$12,947	\$4,640	\$4,129	\$4,324	\$13,093
--	---	---------	---------	---------	----------	---------	---------	---------	----------

Return on average  
tangible common  
equity  
(non-GAAP)<sup>(1)(3)</sup>

H/L	5.66	%	11.69	%	NM	5.90	%	3.87	%	13.78	%	NM	9.59	%
-----	------	---	-------	---	----	------	---	------	---	-------	---	----	------	---

<sup>(3)</sup> Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for common equity tier 1 and then allocate that approximation to the segments based on economic capital.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

(dollars in millions)	Ref.	As of and for the Six Months Ended June 30, 2015								
		2015			2014			Consolidated		
		Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated	
Net income:										
Net income (loss) (GAAP)	H	\$127	\$282	(\$10 )	\$399	\$76	\$282	\$121	\$479	
Efficiency ratio:										
Total revenue (GAAP)	I	\$1,526	\$770	\$87	\$2,383	\$1,538	\$734	\$367	\$2,639	
Noninterest expense (GAAP)	J	\$1,209	\$354	\$88	\$1,651	\$1,293	\$310	\$155	\$1,758	
Efficiency ratio (non-GAAP)	J/I	79.25	% 46.04	% NM	69.27	% 84.00	% 42.25	% NM	66.58	%
Return on average total tangible assets:										
Average total assets (GAAP)		\$52,048	\$42,114	\$40,267	\$134,429	\$48,085	\$37,491	\$39,959	\$125,535	
Less: Average goodwill (GAAP)		—	—	6,876	6,876	—	—	6,876	6,876	
Less: Average other intangibles (GAAP)		—	—	5	5	—	—	7	7	
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	430	430	—	—	360	360	
Average total tangible assets (non-GAAP)	K	\$52,048	\$42,114	\$33,816	\$127,978	\$48,085	\$37,491	\$33,436	\$119,012	
Return on average total tangible assets (non-GAAP) <sup>(1)</sup>	H/K	0.49	% 1.35	% NM	0.63	% 0.32	% 1.52	% NM	0.81	%
Return on average tangible common equity:										
Average common equity (GAAP) <sup>(3)</sup>		\$4,665	\$4,576	\$10,158	\$19,399	\$4,609	\$4,076	\$10,804	\$19,489	
Less: Average goodwill (GAAP)		—	—	6,876	6,876	—	—	6,876	6,876	
Less: Average other intangibles (GAAP)		—	—	5	5	—	—	7	7	
		—	—	430	430	—	—	360	360	

Add: Average  
deferred tax  
liabilities related to  
goodwill (GAAP)

Average tangible common equity (non-GAAP) <sup>(3)</sup>	L	\$4,665	\$4,576	\$3,707	\$12,948	\$4,609	\$4,076	\$4,281	\$12,966
--	---	---------	---------	---------	----------	---------	---------	---------	----------

Return on average

tangible common equity (non-GAAP) <sup>(1)(3)</sup>	H/L	5.48	% 12.41	% NM	6.21	% 3.35	% 13.97	% NM	7.45	%
---	-----	------	---------	------	------	--------	---------	------	------	---

<sup>(3)</sup> Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for common equity tier 1 and then allocate that approximation to the segments based on economic capital.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations — Three Months Ended June 30, 2015 Compared with Three Months Ended June 30, 2014

Highlights

For the second quarter of 2015:

- Net income of \$190 million in the second quarter decreased \$123 million, compared to \$313 million in the second quarter of 2014, driven by a \$133 million decrease in restructuring charges and special items. Excluding the restructuring charges and special items, net income increased \$10 million, or 5%, to \$215 million<sup>(1)</sup>, compared to \$205 million<sup>(1)</sup> in the second quarter of 2014;

Net interest income of \$840 million in the second quarter of 2015 increased \$7 million, or 1%, compared to \$833 million in the second quarter of 2014, as the benefit of earning asset growth and a reduction in pay-fixed swap costs was partially offset by continued pressure from the relatively persistent low-rate environment on loan yields and mix, the effect of the Chicago Divestiture, higher borrowing costs related to debt issuances, and higher deposit costs; Net interest margin of 2.72% in the second quarter of 2015 decreased 15 basis points, compared to 2.87% in the second quarter of 2014 given the impact of the continued low-rate environment on loan yields and mix, higher borrowing costs related to the issuance of subordinated debt and senior notes, higher deposit costs and the impact of the Chicago Divestiture;

Noninterest income of \$360 million in the second quarter of 2015 decreased \$280 million, or 44%, compared to \$640 million in the second quarter of 2014, driven by a \$288 million pre-tax gain in the second quarter of 2014 related to the Chicago Divestiture. Excluding the gain, noninterest income increased approximately \$8 million, driven by higher mortgage banking fees, securities gains and capital markets fees partially offset by a reduction in other income from second quarter 2014 levels which included a \$9 million gain on a student loan portfolio;

Noninterest expense of \$841 million in the second quarter of 2015 declined \$107 million compared with the second quarter of 2014 driven by a \$75 million decrease in restructuring charges and special items, including a decrease related to the Chicago Divestiture;

Provision for credit losses totaled \$77 million in the second quarter of 2015, up \$28 million, or 57%, from \$49 million in the second quarter of 2014, as the benefit of continued improvement in overall credit quality was more than offset by the impact of loan growth and lower commercial recoveries. The second quarter of 2015 included a \$1 million reserve release compared to a \$19 million release in the second quarter of 2014;

Return on average tangible common equity ratio was 5.90%<sup>(1)</sup> in the second quarter of 2015 compared to 9.59%<sup>(1)</sup> in the second quarter of 2014. Excluding the impact of restructuring charges and special items mentioned above, our return on average tangible common equity improved to 6.67%<sup>(1)</sup> from 6.28%<sup>(1)</sup> from the second quarter of 2014;

Average loans and leases of \$95.6 billion increased \$7.6 billion, or 9%, from \$88.0 billion in the second quarter of 2014, driven by growth in commercial and commercial real estate and an increase in auto, student and residential mortgages, partially offset by a decrease in home equity outstandings and a \$725 million reduction in the non-core loan portfolio;

Average interest-bearing deposits of \$72.1 billion increased \$10.5 billion, or 17%, from \$61.6 billion (excluding deposits held for sale) in the second quarter of 2014, driven by growth in all deposit products;

Net charge-offs of \$78 million increased \$10 million, or 15%, from \$68 million in the second quarter of 2014 as the benefit of continued improvement in asset quality and a reduction in underlying consumer net charge-offs was offset by a return to more normalized levels of commercial net charge-offs, and an increase in non-core net charge-offs. The allowance for loan and lease losses of \$1.2 billion remained relatively stable compared to the fourth quarter of 2014. Allowance for loan and lease losses to total loans and leases was 1.24% as of June 30, 2015, compared with 1.28% as of December 31, 2014. Allowance for loan and lease losses to non-performing loans and leases ratio was 114% as of June 30, 2015, compared with 109% as of December 31, 2014; and

Net income per average common share, basic and diluted, was \$0.35 compared to \$0.56 in the second quarter of 2014.

<sup>(1)</sup> These measures are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics Used By Management —

Key Performance Metrics and Non-GAAP Financial Measures.”

77

---

## Results of Operations — Six Months Ended June 30, 2015 Compared with Six Months Ended June 30, 2014

## Highlights

For the first six months of 2015:

Net income of \$399 million in the first six months decreased \$80 million, compared to \$479 million in the first six months of 2014, driven by a \$139 million decrease in restructuring charges and special items;

Net income included \$31 million in after-tax restructuring charges and special noninterest expense items, compared with a \$180 million after-tax gain related to the Chicago Divestiture and \$72 million after-tax in restructuring charges and special noninterest expense items in the first six months of 2014. Excluding the restructuring charges and special items, net income increased \$59 million, or 16%, to \$430 million<sup>(1)</sup>, compared to \$371 million<sup>(1)</sup> in the first six months of 2014;

Net interest income of \$1.7 billion in the first six months of 2015 increased \$35 million, or 2%, compared to \$1.6 billion in the first six months of 2014, as the benefit of earning asset growth and a reduction in pay-fixed swap costs was partially offset by continued pressure from the relatively persistent low-rate environment on loan yields and mix, the effect of the Chicago Divestiture, higher borrowing costs related to debt issuances, and higher deposit costs;

Net interest margin of 2.74% in the first six months of 2015 decreased 14 basis points, compared to 2.88% in the first six months of 2014 given the impact of the continued low-rate environment on loan yields and mix, higher borrowing costs related to the issuance of subordinated debt and senior notes, higher deposit costs and the impact of the Chicago Divestiture;

Noninterest income of \$707 million in the first six months of 2015 decreased \$291 million, or 29%, compared to \$998 million in the first six months of 2014, which included a \$288 million pre-tax gain related to the Chicago Divestiture. Excluding the gain, noninterest income remained relatively stable as strength in mortgage banking and capital markets fee income was offset by lower service charges and fees, card fees, and trust and investment services fees, which included the impact of the Chicago Divestiture. Securities gains were also lower;

Noninterest expense of \$1.7 billion in the first six months of 2015 was down \$107 million, or 6%, compared with the first six months of 2014 driven by a \$65 million decrease in restructuring charges and special items, including the impact of the Chicago Divestiture;

Provision for credit losses totaled \$135 million in the first six months of 2015, down \$35 million, or 21%, from \$170 million in the first six months of 2014, reflecting continued improvement in credit quality and an improvement in total retail net charge-offs. The first six months of 2015 included a \$3 million reserve build compared to a \$15 million build in the first six months of 2014;

Return on average tangible common equity ratio was 6.21%<sup>(1)</sup> for the first six months of 2015 compared to 7.45%<sup>(1)</sup> for the first six months of 2014. Excluding the impact of restructuring charges and special items mentioned above, our return on average tangible common equity improved to 6.70%<sup>(1)</sup> from 5.77%<sup>(1)</sup> from the first six months of 2014;

Average loans and leases of \$94.8 billion increased \$7.6 billion, or 9%, from \$87.2 billion in the first six months of 2014, driven by commercial loan growth across most products, and an increase in auto, residential mortgage, and student loans, partially offset by a decrease in home equity outstandings and a \$727 million reduction in the non-core loan portfolio;

Average interest-bearing deposits of \$71.0 billion increased \$9.4 billion, or 15%, from \$61.6 billion (excluding deposits held for sale) in the first six months of 2014, driven by growth in all deposit products;

Net charge-offs of \$132 million decreased \$23 million, or 15%, from \$155 million in the first six months of 2014 reflecting continued improvement in credit quality and an improvement in total retail net charge-offs. The allowance for loan and lease losses of \$1.2 billion increased \$6 million compared to the fourth quarter of 2014. Allowance for loan and lease losses to total loans and leases was 1.24% as of June 30, 2015, compared with 1.28% as of December 31, 2014. Allowance for loan and lease losses to non-performing loans and leases ratio was 114% as of June 30, 2015, compared with 109% as of December 31, 2014; and

Net income per average common share, basic and diluted, for the first six months of 2015 was \$0.74 and \$0.73, respectively, compared to \$0.86 in the first six months of 2014.

<sup>(1)</sup> These measures are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics Used By Management —



Key Performance Metrics and Non-GAAP Financial Measures.”

78

---

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Income

Net income totaled \$190 million in the second quarter of 2015, compared with second quarter 2014 net income of \$313 million. Second quarter 2015 results were reduced by \$25 million in after-tax restructuring charges and special items, largely related to efforts to improve processes and enhance efficiencies, as well as rebranding and separation from RBS. Second quarter 2014 results included the benefit of a \$180 million after-tax gain related to the Chicago Divestiture and \$72 million of after-tax of restructuring charges also related to our separation from RBS and enhance efficiencies across the organization. Excluding the restructuring charges and special items, net income increased \$10 million, or 5%, from the second quarter of 2014, driven by a \$15 million increase in revenue and a \$32 million decrease in noninterest expense, partially offset by increased provision expense.

Net income totaled \$399 million in the first six months of 2015, down \$80 million, or 17%, from \$479 million in the first six months of 2014, driven by a \$139 million after-tax decrease in restructuring charges and special items. Excluding the restructuring charges and special items, net income of \$430 million increased \$59 million, or 16%, from the first six months of 2014, driven by a \$32 million increase in revenue and \$42 million decrease in noninterest expense

The following table details the significant components of our net income for the periods indicated:

(dollars in millions)	Three Months Ended June 30,				Six Months Ended June 30,				
	2015	2014	Change	Percent	2015	2014	Change	Percent	
<b>Operating Data:</b>									
Net interest income	\$840	\$833	\$7	1%	\$1,676	\$1,641	\$35	2%	
Noninterest income	360	640	(280 )	(44)	707	998	(291 )	(29)	
Total revenue	1,200	1,473	(273 )	(19)	2,383	2,639	(256 )	(10)	
Provision for credit losses	77	49	28	57	135	170	(35 )	(21)	
Noninterest expense	841	948	(107 )	(11)	1,651	1,758	(107 )	(6)	
Noninterest expense, excluding restructuring charges and special items <sup>(1)</sup>	801	833	(32 )	(4)	1,601	1,643	(42 )	(3)	
Income before income tax expense	282	476	(194 )	(41)	597	711	(114 )	(16)	
Income tax expense	92	163	(71 )	(44)	198	232	(34 )	(15)	
Net income	190	313	(123 )	(39)	399	479	(80 )	(17)	
Net income, excluding restructuring charges and special items <sup>(1)</sup>	215	205	10	5	430	371	59	16	
Return on average tangible common equity <sup>(1) (2)</sup>	5.90	% 9.59	% (369 )	bps	—	6.21	% 7.45	% (124 )	bps
Return on average tangible common equity, excluding restructuring charges and special items <sup>(1) (2)</sup>	6.67	% 6.28	% 39	bps	—	6.70	% 5.77	% 93	bps

<sup>(1)</sup> These are non-GAAP financial measures. For more information on the computation of this non-GAAP financial measure, see “—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures.”

<sup>(2)</sup> Ratios for the periods ended June 30, 2015 and 2014 are presented on an annualized basis.



CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Interest Income

The following table shows the major components of net interest income and net interest margin:

(dollars in millions)	Three Months Ended June 30,							
	2015			2014			Change	
	Average Balances	Income/Expenses	Yields/Rates	Average Balances	Income/Expenses	Yields/Rates	Average Balances	Yields/Rates
<b>Assets</b>								
Interest-bearing cash and due from banks and deposits in banks	\$2,054	\$1	0.22 %	\$2,211	\$1	0.23 %	(\$157 )	(1) bps
Taxable investment securities	25,081	155	2.47	24,579	154	2.51	502	(4)
Non-taxable investment securities	10	—	2.60	11	—	2.60	(1 )	—
Total investment securities	25,091	155	2.47	24,590	154	2.51	501	(4)
Commercial	32,855	235	2.83	29,674	229	3.05	3,181	(22)
Commercial real estate	7,947	51	2.55	7,082	45	2.49	865	6
Leases	3,894	25	2.56	3,716	25	2.74	178	(18)
Total commercial	44,696	311	2.75	40,472	299	2.95	4,224	(20)
Residential mortgages	11,980	113	3.76	10,355	106	4.08	1,625	(32)
Home equity loans	3,138	42	5.43	4,015	53	5.31	(877 )	12
Home equity lines of credit	15,084	110	2.94	15,563	111	2.85	(479 )	9
Home equity loans serviced by others <sup>(1)</sup>	1,134	20	7.04	1,388	23	6.72	(254 )	32
Home equity lines of credit serviced by others <sup>(1)</sup>	469	3	2.56	627	4	2.74	(158 )	(18)
Automobile	13,484	90	2.68	10,528	67	2.54	2,956	14
Student	3,029	38	5.05	2,209	25	4.51	820	54
Credit cards	1,606	44	10.92	1,647	41	9.92	(41 )	100
Other retail	986	19	7.61	1,215	22	7.46	(229 )	15
Total retail	50,910	479	3.77	47,547	452	3.81	3,363	(4)
Total loans and leases	95,606	790	3.30	88,019	751	3.40	7,587	(10)
Loans held for sale	308	2	2.47	138	1	3.40	170	(93)
Other loans held for sale	146	4	9.63	1,034	10	3.90	(888 )	NM
Interest-earning assets	123,205	952	3.08	115,992	917	3.16	7,213	(8)
Allowance for loan and lease losses	(1,198 )			(1,286 )			88	
Goodwill	6,876			6,876			—	
Other noninterest-earning assets	6,638			5,566			1,072	
Total noninterest-earning assets	12,316			11,156			1,160	
Total assets	\$135,521			\$127,148			\$8,373	
<b>Liabilities and Stockholders' Equity</b>								
Checking with interest	\$16,561	\$5	0.11 %	\$13,805	\$2	0.06 %	\$2,756	5 bps
Money market and savings	42,977	29	0.27	38,418	16	0.17	4,559	10
Term deposits	12,576	26	0.81	9,416	16	0.67	3,160	14
Total interest-bearing deposits	72,114	60	0.33	61,639	34	0.22	10,475	11
Interest-bearing deposits held for sale	—	—	—	3,675	2	0.21	(3,675 )	(21)
Federal funds purchased and securities sold under agreements to repurchase <sup>(2)</sup>	4,372	2	0.22	5,709	1	0.09	(1,337 )	13
Other short-term borrowed funds	6,498	19	1.18	6,027	30	2.00	471	(82)
Long-term borrowed funds	3,902	31	3.16	1,419	17	4.63	2,483	(147)
Total borrowed funds	14,772	52	1.42	13,155	48	1.46	1,617	(4)

Edgar Filing: CITIZENS FINANCIAL GROUP INC/RI - Form 10-Q

Total interest-bearing liabilities	86,886	112	0.52	78,469	84	0.43	8,417	9
Demand deposits	26,419			25,984			435	
Demand deposits held for sale	—			868			(868	)
Other liabilities	2,592			2,220			372	
Total liabilities	115,897			107,541			8,356	
Stockholders' equity	19,624			19,607			17	
Total liabilities and stockholders' equity	\$135,521			\$127,148			\$8,373	
Interest rate spread			2.56			2.73		(17)
Net interest income		\$840			\$833			
Net interest margin			2.72 %			2.87 %		(15)bps
Memo: Total deposits (interest-bearing and demand)	\$98,533	\$60	0.24 %	\$92,166	\$36	0.15 %	\$6,367	9 bps

(1) Our SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. We now service a portion of this portfolio internally.

(2) Balances are net of certain short-term receivables associated with reverse repurchase agreements. Interest expense includes the full cost of the repurchase agreements and certain hedging costs. The rate on federal funds purchased is elevated due to the impact from pay-fixed interest rate swaps that are scheduled to runoff by the end of 2016. See “—Analysis of Financial Condition — June 30, 2015 Compared with December 31, 2014 — Derivatives” for further information.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net interest income of \$840 million in the second quarter of 2015 increased \$7 million, or 1%, compared to \$833 million in the second quarter of 2014, as the benefit of earning asset growth and a reduction in pay-fixed swap costs was partially offset by continued pressure from the relatively persistent low-rate environment on loan yields and mix, the effect of the Chicago Divestiture, higher borrowing costs related to debt issuances, and higher deposit costs. Average interest-earning assets increased \$7.2 billion, or 6%, from second quarter 2014, as a \$4.2 billion increase in average commercial loans and leases, a \$3.4 billion increase in average retail loans driven by growth in auto, mortgage, and student loan balances, and a \$344 million increase in average investments and interest-bearing deposits, were partially offset by lower home equity outstandings and a reduction in the non-core loan portfolio. Net interest margin of 2.72% in the second quarter of 2015 decreased 15 basis points from 2.87% in the second quarter of 2014 as a reduction in pay-fixed swap costs was partially offset by continued pressure from the persistent low-rate environment on loan yields and mix, the impact of the Chicago Divestiture, and higher borrowing costs related to the issuance of subordinated debt and senior notes. Average interest-earning asset yields in the second quarter of 2015 of 3.08% declined eight basis points from 3.16% for the same period in 2014, largely reflecting the decline in the loan and lease portfolio yield due to the continued impact of the persistent low-rate environment. Investment portfolio income of \$155 million for the three months ended June 30, 2015 increased \$1 million, or 1%, compared to the three months ended June 30, 2014, while the yield on investments declined four basis points to 2.47%.

Total interest-bearing deposit costs for the three months ended June 30, 2015 of \$60 million increased \$26 million, or 76%, from \$34 million in the same period in 2014 and reflected an 11 basis point increase in the rate paid on deposits to 0.33% from 0.22%. The increase in cost of deposits can be attributed to a shift in mix to longer duration deposits including strong growth in term deposits and time deposits as well as money market accounts and the impact of the Chicago Divestiture. The cost of term deposits increased to 0.81% in 2015 from 0.67% in 2014, while rates on money market accounts and savings accounts increased to 0.27% in 2015 from 0.17% in 2014.

Total borrowed funds costs in the second quarter of 2015 of \$52 million increased \$4 million, or 8%, from \$48 million the same period in 2014. Within the federal funds purchased and securities sold under agreement category and other short-term borrowed funds, pay-fixed swap expense declined to \$15 million for the second quarter of 2015 compared to \$27 million for the same period in 2014. Excluding the impact of hedging costs, total borrowed funds rates were 1.12% and 0.66% in the second quarter of 2015 and 2014, respectively. The increase in long-term borrowing expense of 147 basis points is due to the addition of \$1.5 billion in senior term-debt at a yield of 2.15% as well as a \$1.0 billion increase in subordinated debt tied to the bank's repositioning of its liability and capital structure to better align with peers.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

(dollars in millions)	Six Months Ended June 30,				Change			
	2015		2014		Average Yields/		Balances Rates	
	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Yields/ Rates
<b>Assets</b>								
Interest-bearing cash and due from banks and deposits in banks	\$2,073	\$2	0.20 %	\$1,991	\$2	0.23 %	\$82	(3) bps
Taxable investment securities	25,019	314	2.51	23,980	303	2.53	1,039	(2)
Non-taxable investment securities	10	—	2.60	11	—	2.60	(1)	)—
Total investment securities	25,029	314	2.51	23,991	303	2.53	1,038	(2)
Commercial	32,386	461	2.83	29,402	447	3.03	2,984	(20)
Commercial real estate	7,824	101	2.57	6,991	89	2.53	833	4
Leases	3,895	50	2.55	3,720	52	2.79	175	(24)
Total commercial	44,105	612	2.76	40,113	588	2.92	3,992	(16)
Residential mortgages	11,918	225	3.77	10,125	204	4.03	1,793	(26)
Home equity loans	3,234	87	5.41	4,123	108	5.27	(889)	)14
Home equity lines of credit	15,196	221	2.94	15,573	220	2.86	(377)	)8
Home equity loans serviced by others <sup>(1)</sup>	1,164	41	7.06	1,420	48	6.75	(256)	)31
Home equity lines of credit serviced by others <sup>(1)</sup>	495	6	2.57	643	9	2.70	(148)	) (13)
Automobile	13,210	179	2.73	10,087	126	2.51	3,123	22
Student	2,827	71	5.09	2,235	50	4.47	592	62
Credit cards	1,621	88	11.01	1,639	82	10.13	(18)	)88
Other retail	1,013	39	7.60	1,247	46	7.41	(234)	)19
Total retail	50,678	957	3.80	47,092	893	3.82	3,586	(2)
Total loans and leases	94,783	1,569	3.32	87,205	1,481	3.40	7,578	(8)
Loans held for sale	275	3	2.41	133	2	3.35	142	(94)
Other loans held for sale	119	6	9.53	1,062	22	4.06	(943)	)NM
Interest-earning assets	122,279	1,894	3.10	114,382	1,810	3.17	7,897	(7)
Allowance for loan and lease losses	(1,195)	)		(1,262)	)		67	
Goodwill	6,876			6,876			—	
Other noninterest-earning assets	6,469			5,539			930	
Total noninterest-earning assets	12,150			11,153			997	
Total assets	\$134,429			\$125,535			\$8,894	
<b>Liabilities and Stockholders' Equity</b>								
Checking with interest	\$16,302	\$9	0.11 %	\$13,562	\$4	0.06 %	\$2,740	5 bps
Money market and savings	42,325	54	0.26	38,667	33	0.17	3,658	9
Term deposits	12,381	49	0.79	9,376	30	0.64	3,005	15
Total interest-bearing deposits	71,008	112	0.32	61,605	67	0.22	9,403	10
Interest-bearing deposits held for sale	—	—	—	3,953	4	0.22	(3,953)	) (22)
Federal funds purchased and securities sold under agreements to repurchase <sup>(2)</sup>	4,489	9	0.41	5,708	16	0.55	(1,219)	) (14)
Other short-term borrowed funds	6,732	34	1.00	4,838	49	2.03	1,894	(103)
Long-term borrowed funds	3,916	63	3.21	1,412	33	4.60	2,504	(139)
Total borrowed funds	15,137	106	1.40	11,958	98	1.63	3,179	(23)

Edgar Filing: CITIZENS FINANCIAL GROUP INC/RI - Form 10-Q

Total interest-bearing liabilities	86,145	218	0.51	77,516	169	0.43	8,629	8
Demand deposits	26,089			25,393			696	
Demand deposits held for sale	—			932			(932)	)
Other liabilities	2,679			2,205			474	
Total liabilities	114,913			106,046			8,867	
Stockholders' equity	19,516			19,489			27	
Total liabilities and stockholders' equity	\$134,429			\$125,535			\$8,894	
Interest rate spread			2.59			2.74		(15)
Net interest income		\$1,676			\$1,641			
Net interest margin			2.74 %			2.88 %		(14) bps
Memo: Total deposits (interest-bearing and demand)	\$97,097	\$112	0.23 %	\$91,883	\$71	0.16 %	\$5,214	7 bps

(1) Our SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. We now service a portion of this portfolio internally.

(2) Balances are net of certain short-term receivables associated with reverse repurchase agreements. Interest expense includes the full cost of the repurchase agreements and certain hedging costs. The rate on federal funds purchased is elevated due to the impact from pay-fixed interest rate swaps that are scheduled to runoff by the end of 2016. See “—Analysis of Financial Condition — June 30, 2015 Compared with December 31, 2014 — Derivatives” for further information.



CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net interest income of \$1.7 billion in the first six months of 2015 increased \$35 million, or 2%, compared to \$1.6 billion in the first six months of 2014, as the benefit of earning asset growth and a reduction in pay-fixed swap costs was partially offset by continued pressure from the relatively persistent low-rate environment on loan yields and mix, the effect of the Chicago Divestiture, higher borrowing costs related to debt issuances, and higher deposit costs. Average interest-earning assets increased \$7.9 billion, or 7%, from first six months 2014, as a \$3.6 billion increase in average retail loans driven by growth in auto, mortgage, and student loan balances, a \$4.0 billion increase in average commercial loans and leases, and a \$1.1 billion increase in average investments and interest-bearing deposits, were partially offset by lower home equity loan and line outstandings and a reduction in the non-core loan portfolio. Net interest margin of 2.74% in the first six months of 2015 decreased 14 basis points from 2.88% in the first six months of 2014 largely reflecting the impact of the continued low-rate environment on loan yields and mix, higher borrowing costs related to the issuance of subordinated debt and senior notes, higher deposit costs, and the impact of the Chicago Divestiture. Average interest-earning asset yields in the first six months of 2015 of 3.10% declined seven basis points from 3.17% for the same period in 2014, largely reflecting the decline in the loan and lease portfolio yield due to the continued impact of the persistent low-rate environment. Investment portfolio income of \$314 million for the six months ended June 30, 2015 increased \$11 million, or 4%, compared to the six months ended June 30, 2014, while the yield on the portfolio declined two basis points to 2.51%.

Total interest-bearing deposit costs for the six months ended June 30, 2015 of \$112 million increased \$45 million, or 67%, from \$67 million in the same period in 2014 and reflected a ten basis point increase in the rate paid on deposits to 0.32% from 0.22%. The increase in cost of deposits reflected strong growth in term deposits and time deposits as well as money market accounts. The cost of term deposits increased to 0.79% in 2015 from 0.64% in 2014, while rates on money market accounts and savings accounts increased to 0.26% in 2015 from 0.17% in 2014. Total borrowed funds costs in the first six months of 2015 of \$106 million increased \$8 million, or 8%, from \$98 million in the same period in 2014. Within the federal funds purchased and securities sold under agreement category and other short-term borrowed funds, pay-fixed swap expense declined to \$23 million for the first six months of 2015 compared to \$56 million for the same period in 2014. Excluding the impact of hedging costs, total borrowed funds rates of 1.10% in the first six months of 2015 increased from 0.70% in the first six months of 2014, driven by an increase in senior and subordinated debt tied to the bank's repositioning of its liability and capital structure to better align with peers.



CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Noninterest Income

The following table details the significant components of our noninterest income for the periods indicated:

(dollars in millions)	Three Months Ended June 30,				Six Months Ended June 30,			
	2015	2014	Change	Percent	2015	2014	Change	Percent
Service charges and fees	\$139	\$147	(\$8 )	(5 %)	\$274	\$286	(\$12 )	(4 %)
Card fees	60	61	(1 )	(2 )	112	117	(5 )	(4 )
Trust and investment services fees	41	42	(1 )	(2 )	77	81	(4 )	(5 )
Mortgage banking fees	30	14	16	114	63	34	29	85
Capital markets fees	30	26	4	15	52	44	8	18
Foreign exchange and trade finance fees	22	22	—	—	45	44	1	2
Bank-owned life insurance income	14	12	2	17	26	23	3	13
Securities gains, net	9	—	9	—	17	25	(8 )	(32 )
Other income <sup>(1)</sup>	15	316	(301 )	(95 )	41	344	(303 )	(88 )
Noninterest income	\$360	\$640	(\$280)	(44 %)	\$707	\$998	(\$291 )	(29 %)

<sup>(1)</sup> Includes net impairment losses on securities available for sale recognized in earnings and other income.

Noninterest income of \$360 million in the second quarter of 2015 decreased \$280 million, or 44%, compared to \$640 million in the second quarter of 2014, which included a \$288 million pre-tax gain related to the Chicago Divestiture recorded in other income. Excluding this gain, noninterest income increased \$8 million driven by higher mortgage banking fees, securities gains, and capital markets fees partially offset by a reduction in other income from second quarter 2014 levels which included a \$9 million gain on the sale of a student loan portfolio. Service charges and fees decreased \$8 million largely driven by the effect of the Chicago Divestiture as well as lower commercial loan repayment fees. Card fees and trust and investment services fees remained relatively stable as underlying growth was offset by the impact of the Chicago Divestiture. Mortgage banking fees increased \$16 million driven by an 84% increase in secondary origination volumes and improved gain on sale spreads as well as mortgage servicing rights impairment reversals. Securities gains increased \$9 million reflecting our efforts to modestly reposition the investment portfolio to maintain duration given the prolonged low-rate environment. Capital markets fees increased \$4 million, reflecting underlying business momentum. Other income, excluding the impact of the \$288 million pre-tax Chicago gain recorded in the second quarter of 2014, decreased \$13 million due primarily to the \$9 million gain on sale of a student loan portfolio recorded in the second quarter of 2014 and lower lease income.

Noninterest income of \$707 million in the first six months of 2015 decreased \$291 million, or 29%, compared to \$998 million in the first six months of 2014, which included a \$288 million pre-tax gain related to the Chicago Divestiture. Excluding the gain, noninterest income remained relatively stable. Service charges and fees decreased \$12 million largely driven by the effect of the Chicago Divestiture as well as lower transaction volume. Card fees decreased \$5 million and trust and investment services fees decreased \$4 million, reflecting the impact of the Chicago Divestiture and a reduction in investment sales. Mortgage banking fees increased \$29 million reflecting the benefit of portfolio sales gains as well as higher origination volumes. Capital markets fees increased \$8 million, reflecting underlying business momentum. Securities gains decreased \$8 million. Other income, excluding the impact of the \$288 million pre-tax Chicago gain recorded in the second quarter of 2014, decreased \$15 million largely due to the \$9 million gain on sale of a student loan portfolio recorded in the second quarter of 2014 and lower lease income.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Provision for Credit Losses

Provision for credit losses of \$77 million in the second quarter of 2015 increased \$28 million from \$49 million in the second quarter of 2014, which included an \$18 million impact from reserve changes. Second quarter 2015 results reflected a \$1 million reserve release, compared to a \$19 million reserve release in the second quarter of 2014. Results also reflected a \$10 million increase in net charge-offs, driven by a decrease in commercial recoveries.

Provision for credit losses improved by \$35 million in the first six months of 2015, compared to the first six months of 2014. The improvement was composed of a reduction in net charge-offs of \$23 million in the first six months of 2015, primarily due to lower consumer losses, combined with a \$12 million reserve impact. The first six months of 2015 saw a \$3 million reserve build; whereas, the first six months of 2014 experienced a \$15 million reserve build. The \$3 million increase in 2015 included \$2 million of reserves for a credit card portfolio that was subsequently sold in the first quarter of 2015. The provision for credit losses includes the provision for loan and lease losses as well as the provision for unfunded commitments.

The provision for loan and lease losses is the result of a detailed analysis performed to estimate an appropriate and adequate ALLL. The total provision for credit losses included the provision for loan and lease losses as well as the provision for unfunded commitments. Refer to “—Analysis of Financial Condition — Allowance for Credit Losses and Nonperforming Assets” for more information.

#### Noninterest Expense

The following table displays the significant components of our noninterest expense for the periods indicated:

(dollars in millions)	Three Months Ended June 30,				Six Months Ended June 30,			
	2015	2014	Change	Percent	2015	2014	Change	Percent
Salaries and employee benefits	\$411	\$467	(\$56 )	(12 %)	\$830	\$872	(\$42 )	(5 %)
Outside services	99	125	(26 )	(21 )	178	208	(30 )	(14 )
Occupancy	90	87	3	3	170	168	2	1
Equipment expense	65	65	—	—	128	129	(1 )	(1 )
Amortization of software	37	33	4	12	73	64	9	14
Other operating expense	139	171	(32 )	(19 )	272	317	(45 )	(14 )
Noninterest expense	\$841	\$948	(\$107)	(11 %)	\$1,651	\$1,758	(\$107)	(6 %)

Noninterest expense of \$841 million in second quarter 2015 declined \$107 million compared with second quarter 2014 driven by a \$75 million decrease in restructuring charges and special items and the effect of the Chicago Divestiture. Excluding the impact of the restructuring charges and special items, noninterest expense decreased \$32 million, driven by the effect of the Chicago Divestiture and lower regulatory costs. Salaries and employee benefits, outside services, occupancy and other operating expense also reflected decreases, partially offset by higher equipment and amortization of software expense.

Noninterest expense of \$1.7 billion in the first six months of 2015 declined \$107 million compared with the first six months of 2014, driven by a \$65 million decrease in restructuring charges and special items. Excluding the impact of the restructuring charges and special items, noninterest expense decreased \$42 million, driven by lower salaries and employee benefits, outside services, occupancy expense, and other operating expense, offset by higher equipment and amortization of software.

#### Provision for Income Taxes

The provision for income taxes was \$92 million and \$163 million in the second quarter of 2015 and 2014, respectively. This resulted in an effective tax rate of 32.7% and 34.3% in the second quarter of 2015 and 2014, respectively. The decrease in the effective income tax rate from 2014 to 2015 was largely attributable to the tax rate impact of the gain on the Chicago Divestiture in the second quarter of 2014.

The provision for income taxes was \$198 million and \$232 million in the first six months of 2015 and 2014, respectively. This resulted in an effective tax rate of 33.2% and 32.7% in the first six months of 2015 and 2014, respectively. The increase in the effective income tax rate from 2014 to 2015 was attributable to both the tax rate impact of combined reporting legislation and the adoption of ASU No. 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects" in the first quarter of 2015. The application of this guidance resulted in the reclassification of the amortization of these investments to income tax expense from noninterest income. Furthermore, these increases were partially offset by the tax rate impact of the gain on the Chicago

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Divestiture in the second quarter of 2014. For further information regarding the adoption of ASU No. 2014-01, see Recent Accounting Pronouncements in Note 1 "Significant Accounting Policies" to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014.

At June 30, 2015, we reported a net deferred tax liability of \$558 million, compared to a \$493 million liability at December 31, 2014. The increase in the net deferred tax liability was primarily attributable to an increase in the deferred tax liability related to temporary differences. For further discussion, see Note 11 "Income Taxes" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

### Business Segments

The following tables present certain financial data of our business segments:

(dollars in millions)	As of and for the Three Months Ended June 30, 2015			
	Consumer Banking	Commercial Banking	Other	(1) Consolidated
Net interest income	\$544	\$286	\$10	\$840
Noninterest income	230	108	22	360
Total revenue	774	394	32	1,200
Noninterest expense	613	181	47	841
Profit (loss) before provision for credit losses	161	213	(15)	359
Provision for credit losses	60	7	10	77
Income (loss) before income tax expense (benefit)	101	206	(25)	282
Income tax expense (benefit)	35	71	(14)	92
Net income (loss)	\$66	\$135	(\$11)	\$190
Loans and leases and loans held for sale (period-end)	\$51,758	\$41,999	\$3,478	\$97,235
Average Balances:				
Total assets	\$52,489	\$42,617	\$40,415	\$135,521
Loans and leases and loans held for sale	51,024	41,467	3,569	96,060
Deposits	69,963	22,717	5,853	98,533
Interest-earning assets	51,061	41,535	30,609	123,205
Key Metrics				
Net interest margin (2)	4.28	% 2.76	% NM	2.72 %
Efficiency ratio (3)	79.25	46.07	NM	70.02
Average loans to average deposits ratio (4)	72.93	182.54	NM	97.49
Return on average total tangible assets (2) (3)	0.51	1.27	NM	0.59
Return on average tangible common equity (2) (3) (5)	5.66	11.69	NM	5.90

(1) Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see "—Analysis of Financial Condition — June 30, 2015 Compared with December 31, 2014 — Loans and Leases-Non-Core Assets."

(2) Ratios for the period ended June 30, 2015 are presented on an annualized basis.

(3) These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see "—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures."

(4) Ratios include both loans and leases held for sale and deposits held for sale.

<sup>(5)</sup> Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 and then allocate that approximation to the segments based on economic capital.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

(dollars in millions)	As of and for the Six Months Ended June 30, 2015			
	Consumer Banking	Commercial Banking	Other	(1) Consolidated
Net interest income	\$1,077	\$562	\$37	\$1,676
Noninterest income	449	208	50	707
Total revenue	1,526	770	87	2,383
Noninterest expense	1,209	354	88	1,651
Profit (loss) before provision for credit losses	317	416	(1)	732
Provision for credit losses	123	(14)	26	135
Income (loss) before income tax expense (benefit)	194	430	(27)	597
Income tax expense (benefit)	67	148	(17)	198
Net income (loss)	\$127	\$282	(\$10)	\$399
Loans and leases and loans held for sale (period-end)	\$51,758	\$41,999	\$3,478	\$97,235
Average Balances:				
Total assets	\$52,048	\$42,114	\$40,267	\$134,429
Loans and leases and loans held for sale	50,644	40,857	3,676	95,177
Deposits	68,747	22,326	6,024	97,097
Interest-earning assets	50,679	40,943	30,657	122,279
Key Metrics				
Net interest margin <sup>(2)</sup>	4.29	% 2.77	% NM	2.74 %
Efficiency ratio <sup>(3)</sup>	79.25	46.04	NM	69.27
Average loans to average deposits ratio <sup>(4)</sup>	73.67	183.00	NM	98.02
Return on average total tangible assets <sup>(2) (3)</sup>	0.49	1.35	NM	0.63
Return on average tangible common equity <sup>(2) (3) (5)</sup>	5.48	12.41	NM	6.21

(1) Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see “—Analysis of Financial Condition — June 30, 2015 Compared with December 31, 2014 — Loans and Leases-Non-Core Assets.”

(2) Ratios for the period ended June 30, 2015 are presented on an annualized basis

(3) These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures.”

(4) Ratios include both loans and leases held for sale and deposits held for sale.

(5) Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 and then allocate that approximation to the segments based on economic capital.

We operate our business through two operating segments: Consumer Banking and Commercial Banking. Segment results are derived from our business line profitability reporting systems by specifically attributing managed assets, liabilities, capital and their related revenues, provision for credit losses and expenses. Residual assets, liabilities, capital and their related revenues, provision for credit losses and expenses are attributed to Other.

Other includes our treasury function, securities portfolio, wholesale funding activities, goodwill and goodwill impairment, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to Consumer Banking or Commercial Banking. Other also includes our non-core assets. Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. The non-core portfolio totaled \$2.7 billion as of June 30,



2015, down 12% from December 31, 2014. The largest component of our non-core portfolio is our home equity products currently or formerly serviced by others portfolio.

Our capital levels are evaluated and managed centrally; however, capital is allocated to the operating segments to support evaluation of business performance. Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for common equity Tier 1 and then allocate that approximation to the segments based on economic capital. Interest income and expense is determined based on the assets and liabilities managed by the business segment. Because funding and asset liability management is a central function, funds transfer-pricing methodologies are utilized to allocate a cost of funds used, or credit for the funds provided, to all business segment assets, liabilities and capital, respectively, using a matched funding concept. The residual effect on net interest income of asset/liability management, including the residual net interest income related to the funds transfer pricing process, is included in Other.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Provision for credit losses is allocated to each business segment based on actual net charge-offs that have been recognized by the business segment. The difference between the consolidated provision for credit losses and the business segments' net charge-offs is reflected in Other.

Noninterest income and expense directly managed by each business segment, including fees, service charges, salaries and benefits, and other direct revenues and costs are accounted for within each segment's financial results in a manner similar to our unaudited interim Consolidated Financial Statements. Occupancy costs are allocated based on utilization of facilities by the business segment. Noninterest expenses incurred by centrally managed operations or business segments that directly support another business segment's operations are charged to the applicable business segment based on its utilization of those services.

Income taxes are assessed to each business segment at a standard tax rate with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Other.

Developing and applying methodologies used to allocate items among the business segments is a dynamic process. Accordingly, financial results may be revised periodically as management systems are enhanced, methods of evaluating performance or product lines change, or our organizational structure changes.

Consumer Banking

(dollars in millions)	As of and for the Three Months Ended June 30,				As of and for the Six Months Ended June 30,			
	2015	2014	Change	Percent	2015	2014	Change	Percent
Net interest income	\$544	\$546	(\$2 )	— %	\$1,077	\$1,083	(\$6 )	(1 %)
Noninterest income	230	236	(6 )	(3 )	449	455	(6 )	(1 )
Total revenue	774	782	(8 )	(1 )	1,526	1,538	(12 )	(1 )
Noninterest expense	613	655	(42 )	(6 )	1,209	1,293	(84 )	(6 )
Profit before provision for credit losses	161	127	34	27	317	245	72	29
Provision for credit losses	60	59	1	2	123	129	(6 )	(5 )
Income before income tax expense	101	68	33	49	194	116	78	67
Income tax expense	35	24	11	46	67	40	27	68
Net income	\$66	\$44	\$22	50	\$127	\$76	\$51	67
Loans and leases and loans held for sale (period-end)	\$51,758	\$47,167	\$4,591	10	\$51,758	\$47,167	\$4,591	10
Average Balances:								
Total assets	\$52,489	\$48,556	\$3,933	8	\$52,048	\$48,085	\$3,963	8
Loans and leases and loans held for sale <sup>(1)</sup>	51,024	47,368	3,656	8	50,644	46,876	3,768	8
Deposits and deposits held for sale <sup>(2)</sup>	69,963	70,181	(218 )	—	68,747	70,473	(1,726 )	(2 )
Interest-earning assets	51,061	47,397	3,664	8 %	50,679	46,906	3,773	8 %
Key Metrics								
Net interest margin <sup>(3)</sup>	4.28	% 4.62	% (34) bps	—	4.29	% 4.66	% (37) bps	—
Efficiency ratio <sup>(4)</sup>	79.25	83.61	(436) bps	—	79.25	84.00	(475) bps	—
Average loans to average deposits ratio <sup>(5)</sup>	72.93	67.49	544 bps	—	73.67	66.52	715 bps	—
Return on average total tangible assets <sup>(3)(4)</sup>	0.51	0.37	14 bps	—	0.49	0.32	17 bps	—

Return on average tangible common equity <sup>(3)</sup> <sup>(4)</sup> <sup>(6)</sup>	5.66	3.87	179 bps	—	5.48	3.35	213 bps	—
---	------	------	------------	---	------	------	------------	---

(1) June 30, 2014 average loans held for sale include loans relating to the Chicago Divestiture.

(2) June 30, 2014 average deposits held for sale include deposits relating to the Chicago Divestiture.

(3) Ratios for the periods ended June 30, 2015 and 2014 are presented on an annualized basis.

(4) These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures.”

(5) Ratios include both loans and leases held for sale and deposits held for sale.

(6) Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 and then allocate that approximation to the segments based on economic capital.

Consumer Banking net income of \$66 million for the second quarter of 2015 increased \$22 million, or 50%, from \$44 million in the second quarter of 2014, as a reduction in noninterest expense was somewhat offset by the impact of lower revenue. Second quarter 2014 results included revenue and expenses associated with the Chicago Divestiture.

Consumer Banking total revenue of \$774 million in the second quarter of 2015 decreased \$8 million from \$782 million in the second quarter of 2014 driven by the impact of the Chicago Divestiture.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net interest income results reflected the benefit of loan growth particularly in auto, residential mortgage, and student, partially offset by the effect of the relatively persistent low-rate environment. Noninterest income increased excluding the impact of the Chicago Divestiture, driven by strength in mortgage banking and service charges and fees, partially offset by \$9 million reduction in other income tied to a gain on sale of a student loan portfolio recorded in the second quarter of 2014.

Noninterest expense of \$613 million decreased \$42 million, or 6% from the second quarter of 2014, driven by the impact of the Chicago Divestiture as well as our focus on improving efficiency which more than offset continued investment in the business to drive further growth.

Provision for credit losses of \$60 million in the second quarter of 2015 increased \$1 million, or 2%, from \$59 million in the second quarter of 2014, largely reflecting continued improvement in credit quality offset by the impact of loan growth.

Consumer Banking net income of \$127 million for the first six months of 2015 increased \$51 million, or 67%, from \$76 million in the first six months of 2014, due to lower expenses which reflected the impact of the Chicago Divestiture as well as our efficiency initiatives and a decrease in regulatory costs.

Consumer Banking total revenue of \$1.5 billion in the first six months of 2015 decreased \$12 million from the first six months of 2014. Total revenue excluding the effect of the Chicago Divestiture increased driven by higher net interest income and noninterest income.

Net interest income results reflected the benefit of loan growth particularly in auto, residential mortgage, and student partially offset by the effect of the relatively persistent low-rate environment. Noninterest income increased excluding the impact of the Chicago Divestiture, driven by strength in mortgage banking and higher service charges, partially offset by other income which included a \$9 million gain on sale of a student loan portfolio in the second quarter of 2014.

Noninterest expense of \$1.2 billion in the first six months of 2015 decreased \$84 million, or 6%, from the first six months of 2014. Noninterest expense decreased excluding the impact of the Chicago Divestiture, largely reflecting a combination of cost saving actions and lower operating reserves.

Provision for credit losses of \$123 million in the first six months of 2015 decreased \$6 million, or 5%, from \$129 million in the first six months of 2014, largely reflecting continued improvement in credit quality partially offset by the continued growth in loan balances.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

## Commercial Banking

(dollars in millions)	As of and for the Three Months Ended June 30,				As of and for the Six Months Ended June 30,				
	2015	2014	Change	Percent	2015	2014	Change	Percent	
Net interest income	\$286	\$264	\$22	8 %	\$562	\$520	\$42	8 %	
Noninterest income	108	107	1	1	208	214	(6)	(3)	
Total revenue	394	371	23	6	770	734	36	5	
Noninterest expense	181	157	24	15	354	310	44	14	
Profit before provision for credit losses	213	214	(1)	—	416	424	(8)	(2)	
Provision for credit losses	7	(2)	9	450	(14)	(7)	(7)	(100)	
Income before income tax expense	206	216	(10)	(5)	430	431	(1)	—	
Income tax expense	71	75	(4)	(5)	148	149	(1)	(1)	
Net income	\$135	\$141	(\$6)	(4)	\$282	\$282	\$—	—	
Loans and leases and loans held for sale (period-end) <sup>(1)</sup>	\$41,999	\$37,541	\$4,458	12	\$41,999	\$37,541	\$4,458	12	
Average Balances:									
Total assets	\$42,617	\$38,022	\$4,595	12	\$42,114	\$37,491	\$4,623	12	
Loans and leases and loans held for sale <sup>(1)</sup>	41,467	37,389	4,078	11	40,857	36,997	3,860	10	
Deposits and deposits held for sale <sup>(2)</sup>	22,717	18,358	4,359	24	22,326	17,901	4,425	25	
Interest-earning assets	41,535	37,505	4,030	11 %	40,943	37,124	3,819	10 %	
Key Metrics									
Net interest margin <sup>(3)</sup>	2.76 %	2.82 %	(6) bps	—	2.77 %	2.83 %	(6) bps	—	
Efficiency ratio <sup>(4)</sup>	46.07	42.36	371 bps	—	46.04	42.25	379 bps	—	
Average loans to average deposits ratio <sup>(5)</sup>	182.54	203.67	(2,113) bps	—	183.00	206.67	(2,367) bps	—	
Return on average total tangible assets <sup>(3)(4)</sup>	1.27	1.50	(23) bps	—	1.35	1.52	(17) bps	—	
Return on average tangible common equity <sup>(3)(4)(6)</sup>	11.69	13.78	(209) bps	—	12.41	13.97	(156) bps	—	

(1) June 30, 2014 loans held for sale include loans relating to the Chicago Divestiture.

(2) June 30, 2014 deposits held for sale include deposits relating to the Chicago Divestiture.

(3) Ratios for the periods ended June 30, 2015 and 2014 are presented on an annualized basis.

(4) These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures.”

(5) Ratios include both loans and leases held for sale and deposits held for sale.

(6) Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 and then allocate that approximation to the segments based on economic capital.

Commercial Banking net income of \$135 million in the second quarter of 2015 decreased \$6 million, or 4%, from \$141 million in the second quarter of 2014, as the benefit of a \$23 million increase in total revenue was more than

offset by a \$24 million increase in noninterest expense and a \$9 million increase in provision for credit losses. Net interest income of \$286 million in the second quarter of 2015 increased \$22 million, or 8%, from \$264 million in the second quarter of 2014, reflecting the benefit of a \$4.1 billion increase in average loans and leases, driven by strength in Commercial Real Estate, Industry Verticals, Mid-Corporate, Franchise Finance, and Corporate Finance, as well as deposit growth, partially offset by yield compression.

Noninterest income of \$108 million in the second quarter of 2015 was relatively stable as compared to the second quarter of 2014, as strength in capital markets and interest rate products fee income was offset by a decline in leasing income as well as lower loan prepayment fees in service charges and other fees.

Noninterest expense of \$181 million in the second quarter of 2015 increased \$24 million, or 15%, from \$157 million in the second quarter of 2014, reflecting increased salaries and employee benefits tied to growth initiatives, higher insurance, equipment and outside services expense, as well as higher regulatory costs.

Provision for credit losses of \$7 million net in the second quarter of 2015 increased \$9 million from the second quarter of 2014, reflecting higher net charge-offs compared with net recoveries in the prior year.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Commercial Banking net income of \$282 million in the first six months of 2015 was relatively flat compared to the first six months of 2014, as the benefit of a \$36 million increase in total revenue and a \$7 million decrease in provision for credit losses was partially offset by a \$44 million increase in noninterest expense.

Net interest income of \$562 million in the first six months of 2015 increased \$42 million, or 8%, from \$520 million in the second quarter of 2014, reflecting the benefit of a \$3.9 billion increase in average loan balances and a \$4.4 billion increase in net deposits.

Noninterest income of \$208 million in the first six months of 2015 decreased \$6 million, or 3%, from \$214 million in the first six months of 2014 as the benefit of an increase in capital markets, interest rate products, and card fees was more than offset by lower leasing income and service charges and fees.

Noninterest expense of \$354 million in the first six months of 2015 increased \$44 million, or 14%, from \$310 million in the first six months of 2014, reflecting increased salary and benefits costs, outside services, and insurance expense. Provision for credit losses resulted in a net recovery of \$14 million in the first six months of 2015 compared to a net recovery of \$7 million for the first six months of 2014.

Other

(dollars in millions)	As of and for the Three Months Ended June 30,				As of and for the Six Months Ended June 30,			
	2015	2014	Change	Percent	2015	2014	Change	Percent
Net interest income	\$10	\$23	(\$13 )	(57 %)	\$37	\$38	(\$1 )	(3 %)
Noninterest income	22	297	(275 )	(93 )	50	329	(279 )	(85 )
Total revenue	32	320	(288 )	(90 )	87	367	(280 )	(76 )
Noninterest expense	47	136	(89 )	(65 )	88	155	(67 )	(43 )
Profit (loss) before provision for credit losses	(15 )	184	(199 )	(108 )	(1 )	212	(213 )	(100 )
Provision for credit losses	10	(8 )	18	225	26	48	(22 )	(46 )
(Loss) income before income tax (benefit) expense	(25 )	192	(217 )	(113 )	(27 )	164	(191 )	(116 )
Income tax (benefit) expense	(14 )	64	(78 )	(122 )	(17 )	43	(60 )	(140 )
Net (loss) income	(\$11 )	\$128	(\$139 )	(109 )	(\$10 )	\$121	(\$131 )	(108 )
Loans and leases and loans held for sale (period-end)	\$3,478	\$4,383	(\$905 )	(21 )	\$3,478	\$4,383	(\$905 )	(21 )
Average Balances:								
Total assets	\$40,415	\$40,570	(\$155 )	—	\$40,267	\$39,959	\$308	1
Loans and leases and loans held for sale	3,569	4,434	(865 )	(20 )	3,676	4,527	(851 )	(19 )
Deposits and deposits held for sale	5,853	3,627	2,226	61	6,024	3,509	2,515	72
Interest-earning assets	30,609	31,090	(481 )	(2 )%	30,657	30,352	305	1 %

Other recorded a net loss of \$11 million in the second quarter of 2015 compared to net income of \$128 million in the second quarter of 2014. Net loss in the second quarter of 2015 included \$25 million of after-tax restructuring charges and special items. Net income in the second quarter of 2014 included a \$180 million after-tax gain related to the Chicago Divestiture, partially offset by \$72 million of after-tax restructuring charges and special items. Excluding these items, net income decreased by \$6 million.

Net interest income in the second quarter of 2015 decreased \$13 million to \$10 million compared to \$23 million in the second quarter of 2014. The decrease was driven primarily by higher wholesale funding costs and a \$725 million decrease in average non-core loan balances, partially offset by a reduction in interest rate swap costs and an increase

in residual net interest income related to funds transfer pricing.

Noninterest income in the second quarter of 2015 decreased \$275 million primarily driven by the \$288 million pre-tax net gain on the Chicago Divestiture. Excluding the gain, noninterest income increased \$13 million driven by a \$9 million increase in securities gains and an accounting change for low-income housing investments, which are now included in income tax expense.



CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Noninterest expense in the second quarter of 2015 of \$47 million decreased \$89 million from the second quarter of 2014 largely reflecting lower restructuring charges and special items of \$75 million and lower employee incentive costs.

The provision for credit losses within Other mainly represents the residual change in the consolidated allowance for credit losses after attributing the respective net charge-offs to the Consumer Banking and Commercial Banking segments. It also includes net charge-offs related to the non-core portfolio. The provision for credit losses in the second quarter of 2015 increased \$18 million from the second quarter of 2014. On a quarterly basis, we review and refine our estimate of the allowance for credit losses, taking into consideration changes in portfolio size and composition, historical loss experience, internal risk ratings, current economic conditions, industry performance trends and other pertinent information. The provision also reflected an increase in overall credit exposure associated with growth in our loan portfolio. In the second quarter of 2015, changes in these factors led to a \$1 million reserve release compared to a \$19 million release in the second quarter of 2014.

Other recorded a net loss of \$10 million in the first six months of 2015 compared to net income of \$121 million in the first six months of 2014. Net loss in the first six months of 2015 included \$31 million of after-tax restructuring charges and special items. Net income in the first six months of 2014 included a \$180 million after-tax gain related to the Chicago Divestiture partially offset by \$72 million of after-tax restructuring charges and special items. Excluding these items, net income increased by \$8 million.

Net interest income in the first six months of 2015 decreased \$1 million to \$37 million compared to \$38 million in the first six months of 2014. The decrease was driven by higher wholesale funding costs and a \$727 million decrease in average non-core loan balances partially offset by a reduction in interest rate swap costs and an increase in residual net interest income related to funds transfer pricing.

Noninterest income in the first six months of 2015 decreased \$279 million driven by the \$288 million pre-tax gain on the Chicago Divestiture. Excluding the gain, noninterest income increased \$9 million driven by an accounting change for low-income housing investments, which are now included in income tax expense.

Noninterest expense in the first six months of 2015 of \$88 million decreased \$67 million from the first six months of 2014 largely reflecting lower restructuring charges and special items of \$65 million.

The provision for credit losses in the first six months of 2015 decreased \$22 million to \$26 million compared to \$48 million in the first six months of 2014, reflecting continued improvement in credit quality and a decrease in non-core net charge-offs of \$9 million to \$23 million in the first six months of 2015 compared to \$32 million in the first six months 2014. On a quarterly basis, we review and refine our estimate of the allowance for credit losses, taking into consideration changes in portfolio size and composition, historical loss experience, internal risk ratings, current economic conditions, industry performance trends and other pertinent information. The provision also reflected an increase in overall credit exposure associated with growth in our loan portfolio. In the first six months of 2015, changes in these factors led to a \$3 million reserve build compared to a \$15 million build in the first six months of 2014.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Analysis of Financial Condition — June 30, 2015 Compared with December 31, 2014

Loans and Leases

The following table shows the composition of loans and leases, including non-core loans, as of:

(dollars in millions)	June 30, 2015	December 31, 2014	Change	Percent	
Commercial	\$33,027	\$31,431	\$1,596	5	%
Commercial real estate	8,157	7,809	348	4	
Leases	3,884	3,986	(102)	(3)	)
Total commercial	45,068	43,226	1,842	4	
Residential mortgages	12,253	11,832	421	4	
Home equity loans	3,022	3,424	(402)	(12)	)
Home equity lines of credit	14,917	15,423	(506)	(3)	)
Home equity loans serviced by others <sup>(1)</sup>	1,126	1,228	(102)	(8)	)
Home equity lines of credit serviced by others <sup>(1)</sup>	494	550	(56)	(10)	)
Automobile	13,727	12,706	1,021	8	
Student	3,355	2,256	1,099	49	
Credit cards	1,613	1,693	(80)	(5)	)
Other retail	963	1,072	(109)	(10)	)
Total retail	51,470	50,184	1,286	3	
Total loans and leases <sup>(2) (3)</sup>	\$96,538	\$93,410	\$3,128	3	%

<sup>(1)</sup> Our SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. We now service a portion of this portfolio internally.

<sup>(2)</sup> Excluded from the table above are loans held for sale totaling \$697 million and \$281 million as of June 30, 2015 and December 31, 2014, respectively.

<sup>(3)</sup> Mortgage loans serviced for others by our subsidiaries are not included above, and amounted to \$17.8 billion and \$17.9 billion at June 30, 2015 and December 31, 2014, respectively.

Our loans and leases are disclosed in portfolio segments and classes. Our loan and lease portfolio segments are commercial and retail. The classes of loans and leases are: commercial, commercial real estate, leases, residential mortgages, home equity loans, home equity lines of credit, home equity loans serviced by others, home equity lines of credit serviced by others, automobile, student, credit cards and other retail.

As of June 30, 2015, total loans and leases of \$96.5 billion increased \$3.1 billion, or 3%, from \$93.4 billion as of December 31, 2014, reflecting growth in both retail and commercial. Total commercial loans and leases of \$45.1 billion grew \$1.8 billion, or 4%, from \$43.2 billion as of December 31, 2014, reflecting commercial loan growth of \$1.6 billion and modest growth in commercial real estate, offset by lower lease outstandings. Total retail loans of \$51.5 billion increased \$1.3 billion, or 3%, from \$50.2 billion as of December 31, 2014, largely driven by a \$1.1 billion increase in student loans and a \$1.0 billion increase in auto, partially offset by lower home equity outstandings.

The effect of loan purchases and sales in the first six months of 2015, net of runoff of previously purchased loans, increased period-end loans by \$665 million. See Note 3 "Loans and Leases" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report, for further information.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-Core Assets

The table below shows the composition of our non-core assets as of the dates indicated:

(dollars in millions)	June 30, 2015	December 31, 2014	(Date of	Change from 2015-2014	Change from 2015-2009
			Designation) June 30, 2009		
Commercial	\$48	\$68	\$1,900	(29 %)	(97 %)
Commercial real estate	163	216	3,412	(25 )	(95 )
Total commercial	211	284	5,312	(26 )	(96 )
Residential mortgages	330	365	1,467	(10 )	(78 )
Home equity loans	79	118	384	(33 )	(79 )
Home equity lines of credit	81	121	231	(33 )	(65 )
Home equity loans serviced by others <sup>(1)</sup>	1,126	1,228	4,591	(8 )	(75 )
Home equity lines of credit serviced by others <sup>(1)</sup>	494	550	1,589	(10 )	(69 )
Automobile	—	—	769	—	(100 )
Student	349	369	1,495	(5 )	(77 )
Credit cards	—	—	995	—	(100 )
Other retail	—	—	3,268	—	(100 )
Total retail	2,459	2,751	14,789	(11 )	(83 )
Total non-core loans	2,670	3,035	20,101	(12 )	(87 )
Other assets	63	65	378	(3 )	(83 )
Total non-core assets	\$2,733	\$3,100	\$20,479	(12 %)	(87 %)

<sup>(1)</sup> Our SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. We now service a portion of this portfolio internally.

Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. Non-core assets totaled \$2.7 billion as of June 30, 2015. We have actively managed these loans down since they were designated as non-core on June 30, 2009. Between that time and June 30, 2015, the portfolio decreased \$17.7 billion, including principal repayments of \$9.8 billion; charge-offs of \$3.9 billion; transfers back to the core portfolio of \$2.8 billion; and sales of \$1.3 billion. Transfers from non-core back to core were handled on an individual request basis and managed through the chief credit officer.

Non-core assets totaled \$2.7 billion as of June 30, 2015, down 12% from December 31, 2014, driven by principal repayments of \$181 million. Commercial non-core loan balances declined 26% compared to December 31, 2014, ending at \$211 million compared to \$284 million at December 31, 2014. Retail non-core loan balances of \$2.5 billion decreased 11%, or \$292 million, compared to December 31, 2014.

The largest component of our non-core portfolio is the home equity SBO portfolio. The SBO portfolio is a liquidating portfolio consisting of pools of home equity loans and lines of credit purchased between 2003 and 2007. Although our SBO portfolio consists of loans that were initially serviced by others, we now service a portion of this portfolio internally. SBO balances serviced externally totaled \$914 million and \$1.1 billion as of June 30, 2015 and December 31, 2014, respectively. The SBO portfolio has been closed to new purchases since the third quarter of 2007, with exposure down to \$1.6 billion as of June 30, 2015, compared to \$1.8 billion as of December 31, 2014. The SBO portfolio represented 5% of the retail real estate secured portfolio and 3% of the overall retail loan portfolio as of June 30, 2015.

The credit profile of the SBO portfolio was significantly weaker than the core real estate portfolio, with a weighted-average refreshed FICO score of 713 and CLTV of 92% as of June 30, 2015. The proportion of the portfolio

in a second lien (subordinated) position was 95% with 72% of the portfolio in out-of-footprint geographies including 28% in California, Nevada, Arizona and Florida.

SBO credit performance continued to improve in 2015 driven by continued portfolio liquidation (the weakest performing loans have already been charged off), more effective account servicing and collection strategies, and improvements in the real estate market. SBO portfolio year-to-date net charge-offs of \$9.4 million, or 1.1% annualized, as of June 30, 2015 improved from 2.1%, for the full year 2014.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Allowance for Credit Losses and Nonperforming Assets

We and our banking subsidiaries, CBNA and CBPA, maintain an allowance for credit losses, consisting of an ALLL and a reserve for unfunded lending commitments. This allowance is created through charges to income, or provision for credit losses, and is maintained at an appropriate level adequate to absorb anticipated losses and is determined in accordance with GAAP. For further information on our processes to determine our allowance for credit losses, see “—Critical Accounting Estimates — Allowance for Credit Losses,” Note 1 “Significant Accounting Policies” to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014 and Note 4 “Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

The allowance for credit losses totaled \$1.3 billion at June 30, 2015 and December 31, 2014. Our allowance for loan and lease losses was 1.24% of total loans and leases and 114% of nonperforming loans and leases as of June 30, 2015 compared with 1.28% and 109% as of December 31, 2014. Overall, loan portfolio credit quality continued to improve across most measures in the six months ended June 30, 2015 compared to the year ago period. Net charge-offs for the six months ended June 30, 2015 of \$132 million decreased 15% compared to \$155 million for the six months ended June 30, 2014, primarily driven by improvement in home equity and mortgage loans. The portfolio annualized net charge-off rate declined to 0.28% for the six months ended June 30, 2015 from 0.36% for the six months ended June 30, 2014. The 90 day or more past due delinquency rate improved to 1.3% as of June 30, 2015 from 1.5% at December 31, 2014. Nonperforming loans and leases totaled \$1.1 billion, or 1.09%, of the total portfolio as of June 30, 2015 and December 31, 2014. At June 30, 2015, \$732 million of nonperforming loans and leases had been designated as impaired and had no specific allowance because they had been written down to the fair value of their collateral. These impaired loans included \$669 million of retail loans and \$63 million of commercial loans.

Commercial Loan Asset Quality

Our commercial loan portfolio consists of traditional commercial and commercial real estate loans. The portfolio is predominantly focused on customers in our footprint where our local delivery model provides for strong client connectivity. However, we also do business in certain specialized industry sectors on a national basis.

For commercial loans and leases, we use regulatory classification ratings to monitor credit quality. Loans with a “pass” rating are those that we believe will be fully repaid in accordance with the contractual loan terms. Commercial loans and leases that are “criticized” are those that have some weakness that indicates an increased probability of future loss. See Note 4 “Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk” to our unaudited interim Consolidated Financial Statements included in Part I, Item 1 — Financial Statements, included elsewhere in this report.

During the six months ended June 30, 2015, the credit quality of the commercial loan portfolio continued to improve. As of June 30, 2015, total criticized loans decreased to \$1.8 billion, or 4% of the commercial loan portfolio compared to \$1.9 billion, or 4%, at December 31, 2014. Commercial real estate criticized balances decreased to \$208 million, or 3%, of the commercial real estate portfolio compared to \$455 million, or 6%, as of December 31, 2014. Commercial real estate accounted for 11% of criticized loans as of June 30, 2015, compared to 24% as of December 31, 2014.

As of June 30, 2015, nonperforming commercial loans and leases decreased \$39 million, or 24%, to \$125 million, compared to \$164 million as of December 31, 2014, driven by a 16% decline in commercial real estate nonperforming loans. As of June 30, 2015, nonperforming commercial loans stood at 0.3% of the commercial loan portfolio, compared to 0.4% as of December 31, 2014. Net charge-offs in our total commercial loan and lease portfolio for the six months ended June 30, 2015 reflected a net recovery of \$15 million compared to a net recovery of \$21 million for the six months ended June 30, 2014. See “—Key Factors Affecting Our Business — Credit Trends” for further details.

Retail Loan Asset Quality

For retail loans, we primarily use the loan's payment and delinquency status to monitor credit quality. The longer a loan is past due, the greater the likelihood of future credit loss. These credit quality indicators are continually updated and monitored. Our retail loan portfolio remains predominantly focused on lending across the New England, Mid-Atlantic and Midwest regions, with continued geographic expansion outside the footprint with the auto finance and student lending portfolios. Originations within the footprint are primarily initiated through the branch network, whereas out-of-footprint lending is driven by indirect auto loans in dealer networks and through purchase agreements, and student loans via our online platform and purchase agreements.

The credit quality of our retail loan portfolio at June 30, 2015 remained favorable and well-positioned across all product lines with an average refreshed FICO score of 754, in line with December 31, 2014. Our consumer real estate secured CLTV ratio

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

is calculated as the mortgage and 2<sup>nd</sup> lien loan amount divided by the appraised value of the property and was 65% as of June 30, 2015 and December 31, 2014. Excluding the SBO portfolio, the real estate combined loan-to-value was 63% as of June 30, 2015 compared to 64% as of December 31, 2014. Asset quality continued to improve as reflected by a net charge-off rate (core and non-core) of 0.58% for the six months ended June 30, 2015, a decrease of 18 basis points from the six months ended June 30, 2014.

Nonperforming retail loans as a percentage of total retail loans were 1.8% as of June 30, 2015 and decreased 7 basis points from December 31, 2014. Retail nonaccrual loans of \$919 million at June 30, 2015 decreased \$11 million from \$930 million at December 31, 2014 largely reflecting lower mortgage and home equity portfolios, partially offset by increases in the student lending and auto finance portfolios.

#### Special Topics-HELOC Payment Shock

For further information regarding the possible HELOC payment shock, see “—Key Factors Affecting Our Business — HELOC Payment Shock.”

#### Troubled Debt Restructuring

TDR is the classification given to a loan that has been restructured in a manner that grants a concession to a borrower that is experiencing financial hardship that we would not otherwise make. TDRs typically result from our loss mitigation efforts and are undertaken in order to improve the likelihood of recovery and continuity of the relationship. Our loan modifications are handled on a case by case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet our borrower's financial needs. The types of concessions include interest rate reductions, term extensions, principal forgiveness and other modifications to the structure of the loan that fall outside lending policy. Depending on the specific facts and circumstances of the customer, restructuring can involve loans moving to nonaccrual, remaining on nonaccrual or continuing on accrual status. As of June 30, 2015 and December 31, 2014, we classified \$1.2 billion as retail TDRs. In the retail TDR population, \$403 million were in nonaccrual status of which 58.4% were current in payment. TDRs generally return to accrual status once repayment capacity and appropriate payment history can be established. TDRs are evaluated for impairment individually. Loans are classified as TDRs until paid off, sold or refinanced at market terms.

For additional information regarding TDRs, see “—Critical Accounting Estimates — Allowance for Credit Losses,” Note 1 “Significant Accounting Policies” to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014 and Note 4 “Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

The table below presents our retail TDRs in delinquent status:

(in millions)	June 30, 2015			Total
	Current	30-89 Days Past Due	90+ Days Past Due	
Recorded Investment:				
Residential mortgages	\$351	\$14	\$73	\$438
Home equity loans	226	11	40	277
Home equity lines of credit	126	7	19	152
Home equity loans serviced by others <sup>(1)</sup>	75	6	3	84
Home equity lines of credit serviced by others <sup>(1)</sup>	7	2	2	11
Automobile	12	1	—	13
Student	160	6	1	167
Credit cards	27	2	1	30
Other retail	17	—	—	17

Total	\$1,001	\$49	\$139	\$1,189
-------	---------	------	-------	---------

<sup>(1)</sup> Our SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. We now service a portion of this portfolio internally.

96

---



CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The table below presents the accrual status of our retail TDRs:

(in millions)	June 30, 2015		
	Accruing	Nonaccruing	Total
Recorded Investment:			
Residential mortgages	\$283	\$155	\$438
Home equity loans	183	94	277
Home equity lines of credit	64	88	152
Home equity loans serviced by others <sup>(1)</sup>	58	26	84
Home equity lines of credit serviced by others <sup>(1)</sup>	4	7	11
Automobile	5	8	13
Student	143	24	167
Credit cards	29	1	30
Other retail	17	—	17
Total	\$786	\$403	\$1,189

<sup>(1)</sup> Our SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. We now service a portion of this portfolio internally.

#### Securities

Our securities portfolio is managed to seek return while maintaining prudent levels of quality, market risk and liquidity. The following table presents our available for sale and held to maturity portfolios:

(dollars in millions)	June 30, 2015		December 31, 2014		Change in Fair Value		
	Amortized Cost	Fair Value	Amortized Cost	Fair Value			
Securities Available for Sale:							
U.S. Treasury	\$30	\$30	\$15	\$15	\$15	100	%
State and political subdivisions	9	9	10	10	(1)	(10)	)
Mortgage-backed securities:							
Federal agencies and U.S. government sponsored entities	17,830	18,001	17,683	17,934	67	—	
Other/non-agency	631	605	703	672	(67)	(10)	)
Total mortgage-backed securities	18,461	18,606	18,386	18,606	—	—	
Total debt securities	18,500	18,645	18,411	18,631	14	—	
Marketable equity securities	5	5	10	13	(8)	(62)	)
Other equity securities	12	12	12	12	—	—	
Total equity securities	17	17	22	25	(8)	(32)	)
Total securities available for sale	\$18,517	\$18,662	\$18,433	\$18,656	\$6	—	
Securities Held to Maturity:							
Mortgage-backed securities:							
Federal agencies and U.S. government sponsored entities	\$4,253	\$4,269	\$3,728	\$3,719	\$550	15	
Other/non-agency	1,314	1,342	1,420	1,474	(132)	(9)	)
Total securities held to maturity	\$5,567	\$5,611	\$5,148	\$5,193	\$418	8	
Total securities available for sale and held to maturity	\$24,084	\$24,273	\$23,581	\$23,849	\$424	2	%

As of June 30, 2015, the fair value of the securities portfolio increased by \$424 million, or 2%, to \$24.3 billion, compared to \$23.8 billion as of December 31, 2014, reflecting the investment of funds as deposit increases outpaced

loan growth, and our decision to continue to increase interest-earning assets to a level more consistent with our capital levels. As of June 30, 2015, the portfolio had a weighted-average duration of 3.7 years compared with 3.5 years as of December 31, 2014.

The securities portfolio included high quality, highly liquid investments reflecting our ongoing commitment to maintaining appropriate contingent liquidity and pledging capacity. U.S. Government guaranteed notes and government sponsored entity issued

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

mortgage-backed securities represented the vast majority of the securities portfolio holdings. The portfolio composition has also been dominated by holdings backed by mortgages so that they can be pledged to the FHLBs. This has become increasingly important due to the enhanced liquidity requirements of the liquidity coverage ratio. For further discussion of the liquidity coverage ratios, see "Regulation and Supervision — Liquidity Standards" in Part I, Item 1 — Business, included in the Annual Report on Form 10-K for the year ended December 31, 2014.

Income on debt securities portfolios totaled \$294 million for the six months ended June 30, 2015, an increase of \$8 million, or 3%, from \$286 million for the six months ended June 30, 2014, and reflected a yield of 2.44% compared with 2.48% for the six months ended June 30, 2014.

#### Deposits

The table below represents the major components of our deposits:

(dollars in millions)	June 30, 2015	December 31, 2014	Change	Percent	
Demand	\$26,678	\$26,086	\$592	2	%
Checking with interest	17,114	16,394	720	4	
Regular savings	8,080	7,824	256	3	
Money market accounts	35,735	33,345	2,390	7	
Term deposits	13,008	12,058	950	8	
Total deposits	\$100,615	\$95,707	\$4,908	5	%

Total deposits as of June 30, 2015, increased \$4.9 billion, or 5%, to \$100.6 billion compared to \$95.7 billion as of December 31, 2014. All categories of deposits increased, led by money market accounts which increased by \$2.4 billion, or 7%.

#### Borrowed Funds

The tables below present our borrowed funds.

The following is a summary of our short-term borrowed funds:

(dollars in millions)	June 30, 2015	December 31, 2014	Change	Percent	
Federal funds purchased	\$—	\$574	(\$574 )	(100	%)
Securities sold under agreements to repurchase	3,784	3,702	82	2	
Other short-term borrowed funds (primarily current portion of FHLB advances)	6,762	6,253	509	8	
Total short-term borrowed funds	\$10,546	\$10,529	\$17	—	%

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Key data related to short-term borrowed funds is presented in the following table:

(dollars in millions)	For the Six Months Ended June 30, 2015	For the Year Ended December 31, 2014	For the Six Months Ended June 30, 2014
Weighted-average interest rate at period-end:			
Federal funds purchased and securities sold under agreements to repurchase	0.27	% 0.14	% 0.12
Other short-term borrowed funds (primarily current portion of FHLB advances)	0.26	0.26	0.27
Maximum amount outstanding at month-end during the period:			
Federal funds purchased and securities sold under agreements to repurchase	\$5,375	\$7,022	\$7,022
Other short-term borrowed funds (primarily current portion of FHLB advances)	7,004	7,702	7,702
Average amount outstanding during the period:			
Federal funds purchased and securities sold under agreements to repurchase	\$4,489	\$5,699	\$5,708
Other short-term borrowed funds (primarily current portion of FHLB advances)	6,732	5,640	4,838
Weighted-average interest rate during the period:			
Federal funds purchased and securities sold under agreements to repurchase	0.21	% 0.12	% 0.11
Other short-term borrowed funds (primarily current portion of FHLB advances)	0.26	0.25	0.26

The following is a summary of our long-term borrowed funds:

(in millions)	June 30, 2015	December 31, 2014
Citizens Financial Group, Inc.:		
4.150% fixed rate subordinated debt, due 2022	\$350	\$350
5.158% fixed-to-floating rate subordinated debt, (LIBOR + 3.56%) callable, due 2023 <sup>(1)</sup>	333	333
4.771% fixed rate subordinated debt, due 2023 <sup>(1)</sup>	333	333
4.691% fixed rate subordinated debt, due 2024 <sup>(1)</sup>	334	334
4.153% fixed rate subordinated debt, due 2024 <sup>(1)</sup>	333	333
4.023% fixed rate subordinated debt, due 2024 <sup>(1)</sup>	333	333
4.082% fixed rate subordinated debt, due 2025 <sup>(1)</sup>	334	334
Banking Subsidiaries:		
1.600% senior unsecured notes, due 2017 <sup>(2)(3)</sup>	751	750
2.450% senior unsecured notes, due 2019 <sup>(2)(3)</sup>	751	746
Federal Home Loan advances due through 2033	19	772
Other	19	24
Total long-term borrowed funds	\$3,890	\$4,642

<sup>(1)</sup> Intercompany borrowed funds with RBS. See Note 14 "Related Party Transactions" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

<sup>(2)</sup> These securities were offered under Citizens Bank, N.A.'s Global Bank Note Program dated December 1, 2014.

<sup>(3)</sup> \$1.5 billion principal balance of unsecured notes presented net of \$2 million and (\$4) million hedge of interest rate risk on medium term debt using interest rate swaps at June 30, 2015 and December 31, 2014, respectively. See Note 12 “Derivatives” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Short-Term Borrowed Funds

Short-term borrowed funds of \$10.5 billion as of June 30, 2015, remained consistent with the \$10.5 billion as of December 31, 2014 primarily driven by long-term FHLB advances that have a remaining maturity of less than one year at the end of June.

As of June 30, 2015, our total contingent liquidity was \$20.7 billion, consisting of net cash at the FRB (which is defined as excess cash balances held at the FRBs plus federal funds sold minus federal funds purchased) of \$1.9 billion, unencumbered high-quality securities totaling \$15.5 billion and unused FHLB capacity of approximately \$3.3 billion. Additionally, unencumbered loans pledged at the FRBs of \$9.1 billion, created total available liquidity of approximately \$29.8 billion.

Long-Term Borrowed Funds

Long-term borrowed funds of \$3.9 billion as of June 30, 2015 decreased \$752 million from \$4.6 billion as of December 31, 2014, primarily driven by FHLB advance with an original maturity date of greater than one year falling out of the long-term category this quarter.

Access to additional funding through repurchase agreements, collateralized borrowed funds or asset sales is available. Additionally, there is capacity to grow deposits or issue senior notes. We have been able to meet our funding needs for the medium term with deposits and collateralized borrowed funds.

Derivatives

We use derivatives to manage interest-rate risk which are grouped into three categories according to hedged item and strategy.

We use pay-fixed swaps to synthetically lengthen liabilities and offset duration in fixed-rate assets. Notional balances totaled \$4.0 billion as of June 30, 2015, compared with \$1.0 billion as of December 31, 2014, as we added \$3.0 billion of new forward-starting swaps in the first six months of 2015 to rebalance our interest profile. Pay-fixed rates on the swaps ranged from 2.03% to 4.30% as of June 30, 2015, compared to 4.18% to 4.30% as of December 31, 2014. We received the daily federal funds effective rate on the legacy \$1.0 billion notional. The hedges that were added in the first six months of 2015 are forward starting and begin accruing interest in 2017, at which point we will receive one-month LIBOR and pay an average fixed rate of 2.08%.

We use receive-fixed swaps to minimize the exposure to variability in the interest cash flows on our floating rate assets. At June 30, 2015 and December 31, 2014, the notional amount of receive-fixed swap hedges of floating-rate loans totaled \$4.0 billion, and the fixed-rate range was 1.78% to 2.04%, and we paid one-month LIBOR on these swaps.

In December 2014, we entered into a \$750 million receive-fixed interest-rate swap agreement to manage the interest rate exposure on our five-year medium term fixed-rate debt issued in December 2014. This agreement converts the 2.45% fixed-rate debt coupon to three-month LIBOR plus 79 basis points. We receive a fixed rate of 1.66% on the swap agreement and pay three-month LIBOR. In May 2015, we entered into a \$750 million receive-fixed interest-rate swap agreement to manage the interest rate exposure on our three-year medium term fixed-rate debt issued in December 2014. This agreement converts the 1.60% fixed-rate debt coupon to three-month LIBOR plus 49 basis points. We receive a fixed rate of 1.11% and pay three-month LIBOR.

We also sell interest rate swaps and foreign exchange forwards to commercial customers. Offsetting swap and forward agreements are simultaneously transacted to minimize our market risk associated with the customer derivative products. The assets and liabilities recorded for derivatives not designated as hedges reflect the market value of these transactions.

At June 30, 2015, the overall derivative asset value increased \$36 million and the liability balance decreased by \$56 million from December 31, 2014, primarily due to decreased fixed interest rates at June 30, 2015, compared to December 31, 2014 and increased notional balances for the same period.



CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The table below presents our derivative assets and liabilities. For additional information regarding our derivative instruments, see Note 12 "Derivatives" in our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

(dollars in millions)	June 30, 2015			December 31, 2014			Changes in Net	
	Notional Amount (1)	Derivative Assets	Derivative Liabilities	Notional Amount (1)	Derivative Assets	Derivative Liabilities	Assets/ Liabilities	
Derivatives designated as hedging instruments:								
Interest rate swaps	\$9,500	\$95	\$81	\$5,750	\$24	\$99	(119	%)
Derivatives not designated as hedging instruments:								
Interest rate swaps	33,052	544	459	31,848	589	501	(3	)
Foreign exchange contracts	7,820	172	167	8,359	170	164	(17	)
Other contracts	1,310	11	6	730	7	9	(350	)
Total derivatives not designated as hedging instruments		727	632		766	674	3	
Gross derivative fair values		822	713		790	773	541	
Less: Gross amounts offset in the Consolidated Balance Sheets (2)		(157	) (157	)	(161	) (161	)	
Total net derivative fair values presented in the Consolidated Balance Sheets (3)		\$665	\$556		\$629	\$612		

(1) The notional or contractual amount of interest rate derivatives and foreign exchange contracts is the amount upon which interest and other payments under the contract are based. For interest rate derivatives, the notional amount is typically not exchanged. Therefore, notional amounts should not be taken as the measure of credit or market risk as they tend to greatly overstate the true economic risk of these contracts.

(2) Amounts represent the impact of legally enforceable master netting agreements that allow us to settle positive and negative positions.

(3) We also offset assets and liabilities associated with repurchase agreements on our Consolidated Balance Sheets. See Note 2, "Securities," in our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

### Capital

As a bank holding company and a financial holding company, we are subject to regulation and supervision by the FRBG. Our primary subsidiaries are our two insured depository institutions, CBNA, a national banking association whose primary federal regulator is the OCC, and CBPA, a Pennsylvania-chartered savings bank regulated by the Department of Banking of the Commonwealth of Pennsylvania and supervised by the FDIC as its primary federal regulator.

Under the Basel I capital framework in effect for us at December 31, 2014, the FRBG required us to maintain minimum levels with respect to our tier 1 capital, total capital and tier 1 leverage ratios. The minimum standards for the tier 1 capital ratio (the ratio of our tier 1 capital to total risk-weighted assets) and the total capital ratio (the ratio of our total capital, which is the sum of our tier 1 and tier 2 capital, as defined by FRBG regulation, to total risk-weighted assets) were 4.0% and 8.0%, respectively. The minimum tier 1 leverage ratio (the ratio of a banking organization's tier 1 capital to total adjusted quarterly average total assets, as defined for regulatory purposes) was 4.0%.

On January 1, 2015, we became subject to the FRBG's Basel III capital framework. Basel III formally established a CET1 capital ratio and changed the calculation of tier 1 and total capital ratios. Basel III also introduced new minimum ratio requirements and added capital conservation buffer requirements for risk-based ratios, changed the



permissible components of regulatory capital, expanded and modified the risk-sensitive calculation of risk-weighted assets for both credit and market risk and introduced a Standardized approach for the calculation of risk-weighted assets. Certain aspects of these rule changes will phase in through 2018. Under Basel III, the fully phased-in minimum standards for the CET1 ratio, the tier 1 capital ratio and the total capital ratio, including the capital conservation buffer that phases in for us during 2016 through 2018, are 7.0%, 8.5% and 10.5%, respectively. The minimum tier 1 leverage ratio applicable to us is 4.0%. For further discussion of the capital rules to which we are subject, see “Regulation and Supervision” in Part I, Item 1 — Business, included in our Annual Report on Form 10-K for the year ended December 31, 2014.

101

---

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The table below presents our actual regulatory capital ratios as of June 30, 2015 under Basel III Transitional rules and as of December 31, 2014 under Basel I rules. In addition, the table includes pro forma Basel III ratios as of June 30, 2015, after full phase-in of all requirements to which we will be subject by January 1, 2019. Based on both current and fully phased-in Basel III requirements, all ratios remain well above current and future Basel III minima:

	Transitional Basel III				Pro Forma Basel III Assuming Full Phase-in			
	Actual Amount	Actual Ratio	Required Minimum	Well-Capitalized Minimum for Purposes of Prompt Corrective Action	Actual Ratio <sup>(1)</sup>	Required Minimum + Required Capital Conservation Buffer for Non-Leverage Ratios	FDIC Required Well-Capitalized Minimum for Purposes of Prompt Corrective Action	
Basel III Transitional as of June 30, 2015								
Common equity tier 1 capital <sup>(2)</sup>	\$13,270	11.8	%4.5	%6.5	% 11.8	%7.0	%6.5	%
Tier 1 capital <sup>(3)</sup>	13,517	12.1	6.0	8.0	12.0	8.5	8.0	
Total capital <sup>(4)</sup>	17,123	15.3	8.0	10.0	15.2	10.5	10.0	
Tier 1 leverage <sup>(5)</sup>	13,517	10.4	4.0	5.0	10.4	4.0	5.0	
Basel I as of December 31, 2014								
Tier 1 common equity <sup>(2)</sup>	\$13,173	12.4	% Not Applicable	Not Applicable				
Tier 1 capital <sup>(3)</sup>	13,173	12.4	4.0	%6.0	%			
Total capital <sup>(4)</sup>	16,781	15.8	8.0	10.0				
Tier 1 leverage <sup>(5)</sup>	13,173	10.6	4.0	5.0				

<sup>(1)</sup> These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see “-Principal Components of Operations and Key Performance Metrics Used By Management - Key Performance Metrics and Non-GAAP Financial Measures.”

<sup>(2)</sup> CET1 under Basel III replaced the concept of tier 1 common capital that existed under Basel I effective January 1, 2015. “Common equity tier 1 capital ratio” as of June 30, 2015 represents CET1 divided by total risk-weighted assets as defined under Basel III Standardized approach. The “tier 1 common capital ratio” reported prior to January 1, 2015, represented tier 1 common equity divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

<sup>(3)</sup> “Tier 1 capital ratio” is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under Basel III Standardized approach. The “tier 1 capital ratio” reported prior to January 1, 2015, represented tier 1 capital divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

<sup>(4)</sup> “Total capital ratio” is total capital divided by total risk-weighted assets as defined under Basel III Standardized approach. The “Total capital ratio” reported prior to January 1, 2015, represented total capital divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

<sup>(5)</sup> “Tier 1 leverage ratio” is tier 1 capital divided by quarterly average total assets as defined under Basel III Standardized approach. The “tier 1 leverage ratio” reported prior to January 1, 2015, represented tier 1 capital divided by quarterly average total assets as defined under the Basel I general risk-based capital rule.

#### Standardized Approach

The Basel III Standardized approach measures risk-weighted assets primarily for market risk and credit risk exposures. Exposures subject to market risk are measured on a basis generally consistent with how market

risk-weighted assets were measured as defined under the Basel I — 2013 Rules. Credit risk exposures are measured by applying fixed risk weights to each exposure, determined based on the characteristics of the exposure, such as type of obligor, Organization for Economic Cooperation and Development country risk code and maturity, among others. Under the Standardized approach, which is the risk-weight methodology applicable to CFG, no distinction is made for variations in credit quality for corporate exposures. Additionally, the economic benefit of collateral is restricted to a limited list of eligible securities and cash. We estimate our common equity tier 1 capital ratio under the Basel III Standardized approach, on a fully phased-in basis, to be 11.8% at June 30, 2015. As of June 30, 2015, we estimated that our Basel III Standardized common equity tier 1 capital would be \$13.3 billion and total risk-weighted assets would be \$112.4 billion, on a fully-phased in basis. Our estimates under the Basel III Standardized approach may be refined over time because of further rulemaking or clarification by U.S. banking regulators or as our understanding and interpretation of the rules evolve. Actual results could differ from those estimates and assumptions.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

A reconciliation of Basel III Standardized Transitional approach to Basel III Standardized estimates on a fully-phased in basis for common equity tier 1 capital and risk-weighted assets, see the following table.

(dollars in millions)	June 30, 2015	
Common equity tier 1 capital	\$13,270	
Impact of intangibles at 100%	(3	)
Fully phased-in common equity tier 1 capital <sup>(1)</sup>	\$13,267	
Total capital	\$17,123	
Impact of intangibles at 100%	(3	)
Fully phased in common total capital <sup>(1)</sup>	\$17,120	
Risk-weighted assets	\$112,131	
Impact of intangibles - 100% capital deduction	(3	)
Impact of mortgage servicing assets at 250% risk weight	250	
Fully phased-in risk-weighted assets <sup>(1)</sup>	\$112,378	
Transitional common equity tier 1 ratio <sup>(2)</sup>	11.8	%
Fully phased-in common equity tier 1 ratio <sup>(1)(2)</sup>	11.8	
Transitional total capital ratio <sup>(3)</sup>	15.3	
Fully phased-in total capital ratio <sup>(1)(3)</sup>	15.2	

<sup>(1)</sup> These are non-GAAP financial measures.

<sup>(2)</sup> CET1 under Basel III replaced the concept of tier 1 common capital that existed under Basel I effective January 1, 2015. "Common equity tier 1 capital ratio" as of June 30, 2015 represents CET1 divided by total risk-weighted assets as defined under Basel III Standardized approach.

<sup>(3)</sup> "Total capital ratio" is total capital divided by total risk-weighted assets as defined under Basel III Standardized approach.

#### Regulatory Capital Ratios and Capital Composition

The following table presents capital and capital ratio information evidencing our transition from Basel I as of December 31, 2014 to Basel III Standardized as of June 30, 2015:

(dollars in millions)	Actual		Minimum Capital Adequacy		FDIC Requirements Classification as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Basel III Transitional as of June 30, 2015						
Common equity tier 1 capital <sup>(1)</sup>	\$13,270	11.8 %	\$5,046	4.5 %	\$7,289	6.5 %
Tier 1 capital <sup>(2)</sup>	13,517	12.1	6,728	6.0	8,970	8.0
Total capital <sup>(3)</sup>	17,123	15.3	8,970	8.0	11,213	10.0
Tier 1 leverage <sup>(4)</sup>	13,517	10.4	5,180	4.0	6,475	5.0
Risk-weighted assets	112,131					
Quarterly adjusted average assets	129,505					
Basel I as of December 31, 2014						
Tier 1 capital <sup>(2)</sup>	\$13,173	12.4 %	\$4,239	4.0 %	\$6,358	6.0 %
Total capital <sup>(3)</sup>	16,781	15.8	8,477	8.0	10,596	10.0
Tier 1 leverage <sup>(4)</sup>	13,173	10.6	4,982	4.0	6,227	5.0
Risk-weighted assets	105,964					
Quarterly adjusted average assets	124,539					

<sup>(1)</sup> CET1 under Basel III replaced the concept of tier 1 common capital that existed under Basel I effective January 1, 2015. "Common equity tier 1 capital ratio" as of June 30, 2015 represents CET1 divided by total risk-weighted assets as defined under Basel III Standardized approach. The "tier 1 common capital ratio" reported prior to January 1, 2015, represented tier 1 common equity divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

(2) “Tier 1 capital ratio” is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under Basel III Standardized approach. The “tier 1 capital ratio” reported prior to January 1, 2015, represented tier 1 capital divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

(3) “Total capital ratio” is total capital divided by total risk-weighted assets as defined under Basel III Standardized approach. The “Total capital ratio” reported prior to January 1, 2015, represented total capital divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

(4) “Tier 1 leverage ratio” is tier 1 capital divided by quarterly average total assets as defined under Basel III Standardized approach. The “tier 1 leverage ratio” reported prior to January 1, 2015, represented tier 1 capital divided by quarterly average total assets as defined under the Basel I general risk-based capital rule.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

CET1 capital under Basel III Standardized Transitional rules was \$13.3 billion at June 30, 2015, an increase of \$97 million from tier 1 common equity under Basel I at December 31, 2014. The increase was primarily attributable to net income for six months ended June 30, 2015, net of dividends paid to common shareholders, and a \$250 million repurchase of common shares that was executed on April 7, 2015. At June 30, 2015, there was approximately \$247 million of additional tier 1 capital, reflecting the capital value after issuance costs of the 5.500% Fixed-to-Floating Non-Cumulative Perpetual Preferred Stock, Series A, issued on April 6, 2015. Tier 1 capital at June 30, 2015 was \$13.5 billion, an increase of \$344 million over the two quarters, as the combined impact of the repurchase of common shares and the issuance of preferred shares was generally neutral to tier 1 capital. Total capital was \$17.1 billion at June 30, 2015, an increase of \$342 million from December 31, 2014 driven primarily by the increase in CET1 and tier 1 capital mentioned above.

On January 1, 2015, we began reporting risk-weighted assets based on Basel III Standardized Transitional rules. The conversion from Basel I rules resulted in a \$2.7 billion increase in RWAs as of December 31, 2014. This increase was primarily driven by risk weight changes for securitization, off-balance sheet commitments with original maturity one year or less, past due and non-accruals exposures and the removal of the cap on OTC derivatives.

Risk-weighted assets based on Basel III Standardized Transitional rules at June 30, 2015 were \$112.1 billion, an increase of \$6.2 billion as compared to December 31, 2014. The primary drivers for this change were the adoption of the Basel III Standardized approach, as well as growth in commercial, consumer auto and student loan exposures.

As of June 30, 2015, the tier 1 leverage ratio decreased approximately 14 basis points. This decline reflected the net impact of a \$5.0 billion increase in adjusted quarterly average total assets, which drove a 41 basis point decline in the ratio, and the previously noted increase in tier 1 capital, which added 27 basis points to the ratio.

The following table presents our capital composition under the Basel III capital framework in effect for us at June 30, 2015 and under the Basel I capital framework in effect for us at December 31, 2014:

(dollars in millions)	Transitional Basel III June 30, 2015	Basel I December 31, 2014
Total common stockholders' equity	\$19,339	\$19,268
Exclusions <sup>(1)</sup> :		
Net unrealized (gains) losses recorded in accumulated other comprehensive income, net of tax:		
Debt and marketable equity securities available for sale	(27	) (74
Derivatives	13	69
Unamortized net periodic benefit costs	373	377
Deductions:		
Goodwill	(6,876	) (6,876
Deferred tax liability associated with goodwill	450	420
Other intangible assets	(2	) (6
Disallowed mortgage servicing	—	(5
Total Common Equity Tier 1 <sup>(2)</sup>	13,270	13,173
Qualifying preferred stock	247	—
Total Tier 1 Capital	13,517	13,173
Qualifying long-term debt securities as tier 2	2,350	2,350
Allowance for loan and lease losses	1,201	1,195
Allowance for credit losses for off-balance sheet exposure	55	61
Unrealized gains on equity securities	—	2
Total capital <sup>(4)</sup>	\$17,123	\$16,781

- (1) As a Basel III Standardized approach institution, we selected the one-time election to opt out of the requirements to include all the components of AOCI.
- (2) CET1 under Basel III replaced the concept of tier 1 common capital that existed under Basel I effective January 1, 2015. “Common equity tier 1 capital ratio” as of June 30, 2015 represents CET1 divided by total risk-weighted assets as defined under Basel III Standardized approach. The “tier 1 common capital ratio” reported prior to January 1, 2015, represented tier 1 common equity divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.
- (3) “Tier 1 capital ratio” is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under Basel III Standardized approach. The “tier 1 capital ratio” reported prior to January 1, 2015, represented tier 1 capital divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.
- (4) “Total capital ratio” is total capital divided by total risk-weighted assets as defined under Basel III Standardized approach. The “Total capital ratio” reported prior to January 1, 2015, represented total capital divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Adequacy Process

Our assessment of capital adequacy begins with our risk appetite and risk management framework. This framework provides for the identification, measurement and management of material risks. Capital requirements are determined for actual and forecasted risk portfolios using applicable regulatory capital methodologies. The assessment also considers the possible impacts of approved and proposed regulatory changes that will or may apply to future periods. Key analytical frameworks, which enable the comprehensive assessment of capital adequacy versus unexpected loss, supplement our base case forecast. These supplemental frameworks include integrated stress testing, as well as an internal capital adequacy requirement that builds on internally assessed economic capital requirements. A robust governance framework supports our capital planning process. This process includes capital management policies and procedures that document capital adequacy metrics and limits, as well as our comprehensive capital contingency plan and the active engagement of both the legal-entity boards and senior management in oversight and decision-making. Forward-looking assessments of capital adequacy for us and for our banking subsidiaries feed development of capital plans that are submitted to the FRBG and other bank regulators. We prepare these plans in full compliance with the FRBG's Capital Plan Rule and we participate annually in the FRBG's extensive CCAR review process. In addition to the stress test requirements under CCAR, we also participate in semiannual stress tests required by the Dodd-Frank Act.

In March 2015, the FRBG assessed our current capital plan in response to the CCAR process and issued a notice of non-objection. Unless we choose to file an amended capital plan prior to April 2016, the maximum levels at which we may declare dividends and repurchase shares of our common stock through June 30, 2016 are governed by the proposed capital actions and, are subject to actual financial performance, as well as ongoing compliance with internal governance and all other regulatory requirements.

Capital Transactions

During the six months ended June 30, 2015, we completed the following capital actions:

- declared and paid common dividends of \$0.10 per share, aggregating to dividend payments of approximately \$55 million and \$53 million, respectively, in the first and second quarters of 2015;
- issued 250,000 shares of the 5.500% Fixed-To-Floating Non-cumulative Perpetual Preferred Stock, Series A, with aggregate liquidation value of \$250 million and approximately \$247 million of net capital value after deduction of fixed issuance costs; and
- repurchased 10,473,397 common shares from RBS, at a price of \$23.87 per share to reduce market and regulatory capital by approximately \$250 million.

The repurchase of common shares and the issuance of preferred shares reflect CFG's ongoing strategy of normalizing the level and mix of market and regulatory capital to better align with the capital profiles of our own peers while still maintaining adequate capital in relation to risk. These transactions were generally neutral to our tier 1 and total capital levels and ratios but reduced common equity by \$250 million and the CET1 ratio by approximately 23 basis points as of June 30, 2015.

Additionally, on July 31, 2015, we issued \$250 million aggregate principal amount 4.350% Subordinated Notes due 2025. On August 3, 2015, we used the net proceeds of this public offering to repurchase 9,615,384 shares of our outstanding common stock directly from RBS at \$26.00 per share. This transaction reduced common equity by \$250 million and, on a pro forma basis as of June 30, 2015, would reduce the CET1 and tier 1 capital ratios by approximately 22 basis points, while the impact to the total capital ratio would be neutral. Subject to regulatory approval and market conditions, we intend to purchase an additional \$250 million of our shares of common stock in 2016. These repurchases may be funded by the issuance of senior debt or subordinated debt.

At June 30, 2015, all regulatory ratios remain well above their respective fully phased-in Basel III minimum, which includes the capital conservation buffer for the risk-based ratios. Fully phased-in regulatory ratios are non-GAAP financial measures. For more information on computation of these non-GAAP financial measures, see "—Principal



Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures,”

105

---

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Banking Subsidiaries' Capital

The following table presents our banking subsidiaries' capital ratios under the Basel I as of December 31, 2014 and Basel III Standardized Transitional rules as of June 30, 2015:

(dollars in millions)	Transitional Basel III		Basel I		
	June 30, 2015		December 31, 2014		
	Amount	Ratio	Amount	Ratio	
Citizens Bank, N.A.					
Common equity tier 1 capital <sup>(1)</sup>	\$10,636	11.8	%		
Tier 1 capital <sup>(2)</sup>	10,636	11.8	\$10,406	12.2	%
Total capital <sup>(3)</sup>	12,827	14.3	12,584	14.8	
Tier 1 leverage <sup>(4)</sup>	10,636	10.6	10,406	10.9	
Citizens Bank of Pennsylvania					
Common equity tier 1 capital <sup>(1)</sup>	\$2,989	13.0	%		
Tier 1 capital <sup>(2)</sup>	2,989	13.0	\$2,967	14.1	%
Total capital <sup>(3)</sup>	3,524	15.4	3,494	16.6	
Tier 1 leverage <sup>(4)</sup>	2,989	9.0	2,967	9.5	

<sup>(1)</sup> CET1 under Basel III replaced the concept of tier 1 common capital that existed under Basel I effective January 1, 2015. "Common equity tier 1 capital ratio" as of June 30, 2015 represents CET1 divided by total risk-weighted assets as defined under Basel III Standardized approach. The "tier 1 common capital ratio" reported prior to January 1, 2015, represented tier 1 common equity divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

<sup>(2)</sup> "Tier 1 capital ratio" is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under Basel III Standardized approach. The "tier 1 capital ratio" reported prior to January 1, 2015, represented tier 1 capital divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

<sup>(3)</sup> "Total capital ratio" is total capital divided by total risk-weighted assets as defined under Basel III Standardized approach. The "Total capital ratio" reported prior to January 1, 2015, represented total capital divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

<sup>(4)</sup> "Tier 1 leverage ratio" is tier 1 capital divided by quarterly average total assets as defined under Basel III Standardized approach. The "tier 1 leverage ratio" reported prior to January 1, 2015, represented tier 1 capital divided by quarterly average total assets as defined under the Basel I general risk-based capital rule.

CBNA CET1 capital under Basel III Standardized Transitional rules was \$10.6 billion at June 30, 2015, an increase of \$230 million from tier 1 common equity under Basel I at December 31, 2014. The increase was primarily attributable to net income for the six months ended June 30, 2015, net of dividends paid to CFG. At June 30, 2015, CBNA held minimal additional tier 1 capital. Total capital was \$12.8 billion at June 30, 2015, an increase of \$243 million driven primarily by the increase in CET1 capital.

On January 1, 2015, CBNA began reporting risk-weighted assets based on Basel III Standardized Transitional rules. The conversion from Basel I rules resulted in a \$2.0 billion increase in RWAs as of December 31, 2014. This increase was primarily driven by risk weight changes for securitizations, commercial past due and non accruals, off-balance sheet commitments with an original maturity one year or less and the removal of the cap on OTC derivatives.

CBNA risk-weighted assets based on Basel III Standardized Transitional rules at June 30, 2015 were \$89.9 billion, an increase of \$4.6 billion as compared to December 31, 2014. The primary drivers for this change were the adoption of the Basel III Standardized approach, as well as growth in commercial, student and consumer auto loan exposures. These increases were partially offset by runoff in home lending exposures.

As of June 30, 2015, the CBNA tier 1 leverage ratio decreased approximately 23 basis points, driven by an increase in adjusted quarterly average total assets of \$4.3 billion resulting in a 47 basis point decline in the ratio, partially offset by a 23 basis point increase for higher CET1 capital discussed earlier.

CBPA CET1 capital under Basel III Standardized Transitional rules was \$3.0 billion at June 30, 2015, an increase of \$22 million from tier 1 common equity under Basel I at December 31, 2014. The increase was primarily attributable to net income for the six months ended June 30, 2015, net of dividends paid to common shareholders, and to book amortization of the deferred tax asset related to goodwill. At June 30, 2015, there was no additional tier 1 capital. Total capital was \$3.5 billion at June 30, 2015, an increase of \$30 million driven primarily by the increase in CET1 capital.

On January 1, 2015, CBPA began reporting risk-weighted assets based on Basel III Standardized Transitional rules. The conversion from Basel I rules resulted in a \$705 million increase in RWAs as of December 31, 2014. This increase was primarily

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

driven by risk weight changes for off-balance sheet commitments with an original maturity one year or less, securitizations and the removal of the cap on OTC derivatives.

CBPA risk-weighted assets based on Basel III Standardized Transitional rules at June 30, 2015 were \$22.9 billion, an increase of \$1.9 billion as compared to December 31, 2014. The primary drivers for this change were the adoption of the Basel III Standardized approach, as well as growth in commercial, student loans and purchased auto loan exposures.

As of June 30, 2015, the CBPA tier 1 leverage ratio decreased approximately 52 basis points, driven by an increase in adjusted quarterly average total assets of \$2 billion resulting in a 59 basis point decline in the ratio, partially offset by a 7 basis point increase resulting from higher CET1 capital discussed earlier.

#### Liquidity

We define liquidity as an institution's ability to meet its cash-flow and collateral obligations in a timely manner, at a reasonable cost. An institution must maintain current liquidity to fund its daily operations and forecasted cash-flow needs as well as contingent liquidity to deliver funding in a stress scenario. We consider the effective and prudent management of liquidity to be fundamental to our health and strength.

We manage liquidity at the consolidated enterprise level and at each material legal entity, including us, CBNA and CBPA.

#### CFG Liquidity

Our primary sources of cash are (i) dividends and interest received from our banking subsidiaries as a result of investing in bank equity and subordinated debt and (ii) externally issued subordinated debt (\$350 million). Our uses of liquidity include the following: (i) routine cash flow requirements as a bank holding company, including payments of dividends, interest and expenses; (ii) needs of subsidiaries, including our banking subsidiaries, for additional equity and, as required, their needs for debt financing; and (iii) extraordinary requirements for cash, such as acquisitions. Our cash and cash equivalents represent a source of liquidity that can be used to meet various needs. As of June 30, 2015, we held cash and cash equivalents of approximately \$383 million. This should be viewed as a liquidity reserve. Our liquidity risk is low for four reasons. First, we have no material non-banking subsidiaries, and our banking subsidiaries are self-funding. Second, we have no outstanding senior debt at the CFG level. Third, the capital structures of our banking subsidiaries are similar to our capital structure. As of June 30, 2015, our double leverage ratio (the combined equity of our subsidiaries divided by our equity) was 101.4%. Fourth, our other cash flow requirements, such as operating expenses, are relatively small.

#### Banking Subsidiaries' Liquidity

In the ordinary course of business, the liquidity of CBNA and CBPA is managed by matching sources and uses of cash. The primary sources of bank liquidity include (i) deposits from our consumer and commercial franchise customers; (ii) payments of principal and interest on loans and debt securities; and (iii) as needed and as described under "—Liquidity Risk Management and Governance," wholesale borrowings. The primary uses of bank liquidity include (i) withdrawals and maturities of deposits; (ii) payment of interest on deposits; (iii) funding of loan commitments; and (iv) funding of securities purchases. To the extent that the banks have relied on wholesale borrowings, uses also include payments of related principal and interest.

Our banking subsidiaries' major businesses involve taking deposits and making loans. Hence, a key role of liquidity management is to ensure that customers have timely access to funds from deposits and loans. Liquidity management also involves maintaining sufficient liquidity to repay wholesale borrowings, pay operating expenses and support extraordinary funding requirements when necessary.

From an external issuance perspective, during 2014, we created a \$3.0 billion Global Note Program for our CBNA bank subsidiary. Under this program, on December 1, 2014, CBNA issued \$1.5 billion in senior notes, consisting of \$750 million of three-year fixed-rate notes and \$750 million in five-year fixed-rate notes. This debt represents a key source of unsecured, term, and stable funding, further diversifies the funding sources of CBNA, and creates a more peer-like funding structure for the consolidated enterprise.



CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

### Liquidity Risk

We define liquidity risk as the risk that we or either of our banking subsidiaries will be unable to meet our payment obligations in a timely manner. We manage liquidity risk at the consolidated enterprise level, and for each material legal entity including us, CBNA and CBPA. Liquidity risk can arise due to contingent liquidity risk and/or funding liquidity risk.

Contingent liquidity risk is the risk that market conditions may reduce an entity's ability to liquidate, pledge and/or finance certain assets and thereby substantially reduce the liquidity value of such assets. Drivers of contingent liquidity risk include general market disruptions as well as specific issues regarding the credit quality and/or valuation of a security or loan, issuer or borrower and/or asset class.

Funding liquidity risk is the risk that market conditions and/or entity-specific events may reduce an entity's ability to raise funds from depositors and/or wholesale market counterparties. Drivers of funding liquidity risk may be idiosyncratic or systemic, reflecting impediments to operations and/or undermining of market confidence.

#### Factors Affecting Liquidity

Given the composition of their assets and borrowing sources, contingent liquidity at both CBNA and CBPA would be materially affected by such events as deterioration of financing markets for high-quality securities (e.g., mortgage-backed securities and other instruments issued by the GNMA, FNMA and the FHLMC), by any inability of the FHLBs to provide collateralized advances and/or by a refusal of the FRB to act as lender of last resort in systemic stress. Given the quality of our unencumbered securities, the positive track record of the FHLBs in stress and the commitment of the FRB to continue as lender of last resort in systemic stress scenarios, we view contingent liquidity risk at our banking subsidiaries, both CBNA and CBPA, to be relatively modest, given the size and configuration of their respective balance sheets.

Given the structure of their balance sheets, funding liquidity of CBNA and CBPA would be materially affected by an adverse idiosyncratic event (e.g., a major loss, causing a perceived or actual deterioration in its financial condition), an adverse systemic event (e.g., default or bankruptcy of a significant capital markets participant), or a combination of both (e.g., the financial crisis of 2008-2010). However, during the financial crisis, our banking subsidiaries reduced their dependence on unsecured wholesale funding to virtually zero. Consequently, and despite ongoing exposure to a variety of idiosyncratic and systemic events, we view our funding liquidity risk to be relatively modest.

An additional variable affecting our access, and the access of our banking subsidiaries, to unsecured wholesale market funds and to large denomination (i.e., uninsured) customer deposits is the credit ratings assigned by such agencies as Moody's, Standard & Poor's and Fitch. The following table presents our credit ratings:

	June 30, 2015		
	Moody's	Standard and Poor's	Fitch
Citizens Financial Group, Inc.:			
Long-term issuer	NR	BBB+	BBB+
Short-term issuer	NR	A-2	F2
Subordinated debt	NR	BBB	BBB
Citizens Bank, N.A.:			
Long-term issuer	Baa1	A-	BBB+
Short-term issuer	P-1	A-2	F2
Citizens Bank of Pennsylvania:			
Long-term issuer	Baa1	A-	BBB+
Short-term issuer	P-1	A-2	F2
NR = Not rated			

On April 6, 2015, the Company issued \$250 million, or 250,000 shares, 5.500% fixed-to-floating rate non-cumulative perpetual Series A Preferred Stock, par value of \$25.00 per share with a liquidation preference \$1,000 per share to the initial purchasers in reliance on the exemption from registration provided by Section (4)(a)(2) of the Securities Act of 1933, as amended, for resale pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended.

See “—Recent Events,” and Note 9 “Stockholders’ Equity” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report. The Preferred Stock was rated BB+ by Standard and Poor’s and was rated BB- by Fitch.

Changes in our public credit ratings could affect both the cost and availability of our wholesale funding. As a result and in order to maintain a conservative funding profile, our banking subsidiaries continue to minimize reliance on unsecured wholesale funding. At June 30, 2015, the majority of wholesale funding consisted of secured borrowings using high-quality liquid securities

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

sold under agreements to repurchase (repurchase agreements) and FHLB advances secured primarily by high-quality residential loan collateral. Our dependence on short-term, unsecured and credit-sensitive funding continues to be relatively low.

Existing and evolving regulatory liquidity requirements represent another key driver of systemic liquidity conditions and liquidity management practices. The FRBG evaluates our liquidity as part of the supervisory process, and the Federal Reserve Board recently issued regulations that will require us to conduct regular liquidity stress testing over various time horizons and to maintain a buffer of highly liquid assets sufficient to cover expected net cash outflows and projected loss or impairment of funding sources for a short-term liquidity stress scenario. In addition, the Basel Committee has developed a set of internationally-agreed upon quantitative liquidity metrics: the LCR and the NSFR. The LCR was developed to ensure banks have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. In September 2014, the U.S. federal banking regulators published the final rule to implement the LCR. This rule also introduced a modified version of the LCR in the United States, which generally applies to bank holding companies not active internationally (institutions with less than \$10 billion of on-balance sheet foreign exposure), with total assets of greater than \$50 billion but less than \$250 billion. Under this definition, we are designated as a modified LCR company. As compared to the Basel Committee's version of the LCR, the version of the LCR issued by the U.S. federal banking regulators includes a narrower definition of high-quality liquid assets, different prescribed cash inflow and outflow assumptions for certain types of instruments and transactions and a shorter phase-in schedule that begins on January 1, 2015 and ends on January 1, 2017. Notably, as a modified LCR company, we are required to be 90% compliant beginning in January 2016, and 100% compliant beginning in January 2017. Achieving sustainable LCR compliance may require changes in the size and/or composition of our investment portfolio, the configuration of our discretionary wholesale funding portfolio, and our average cash position. We were compliant with the LCR as of June 30, 2015, and we expect to be fully compliant with the LCR as of the required implementation date of January 2016.

The NSFR was developed to provide a sustainable maturity structure of assets and liabilities and has a time horizon of one year. The Basel Committee contemplates that the NSFR, including any revisions, will be implemented as a minimum standard by January 1, 2018; however, the U.S. federal banking regulators have not yet published a proposed rule to implement the NSFR in the United States.

We continue to review these liquidity requirements, and to develop implementation plans and liquidity strategies. We expect to be fully compliant with the final rules on or prior to the applicable effective date.

#### Liquidity Risk Management and Governance

Liquidity risk is measured and managed by the Wholesale Funding and Liquidity unit within our Treasury unit in accordance with policy guidelines promulgated by our Board and the Asset and Liability Management Committee. In managing liquidity risk, the Wholesale Funding and Liquidity unit delivers regular and comprehensive reporting, including current levels vs. threshold limits for a broad set of liquidity metrics, explanatory commentary relating to emerging risk trends and, as appropriate, recommended remedial strategies.

The mission of our Wholesale Funding and Liquidity unit is to deliver prudent levels of current, projected and contingent liquidity from stable sources, in a timely manner and at a reasonable cost, without significant adverse consequences.

We seek to accomplish this mission by funding loans with stable deposits; by prudently controlling dependence on wholesale funding, particularly short-term unsecured funding; and by maintaining ample available liquidity, including a contingent liquidity buffer of unencumbered high-quality loans and securities. As of June 30, 2015:

• Core deposits continued to be our primary source of funding and our consolidated period-end loan-to-deposit ratio was 96.6% and includes loans and deposits held for sale;

• Short-term unsecured wholesale funding was relatively low, at \$350 million, substantially offset by our net overnight position (which is defined as excess cash balances held at the Federal Reserve Banks plus federal funds sold minus federal funds purchased) of \$1.9 billion;

• Contingent liquidity remained robust at \$20.7 billion; net overnight position (defined above), totaled \$1.9 billion; unencumbered liquid securities totaled \$15.5 billion; and available FHLB capacity primarily secured by mortgage



loans totaled \$3.3 billion; and

Available discount window capacity, defined as available total borrowing capacity from the Federal Reserve based on identified collateral, is secured by non-mortgage commercial and consumer loans and totaled \$9.1 billion. Use of this borrowing capacity would likely be considered only during exigent circumstances.

109

---

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Wholesale Funding and Liquidity unit monitors a variety of liquidity and funding metrics, including specific risk threshold limits. The metrics are broadly classified as follows:

- Current liquidity sources and capacities, including excess cash at the Federal Reserve Banks, free and liquid securities and available and secured FHLB borrowing capacity;
- Contingent stressed liquidity, including idiosyncratic, systemic and combined stress scenarios, in addition to evolving regulatory requirements such as the LCR and the NSFR; and
- Current and prospective exposures, including secured and unsecured wholesale funding and spot and cumulative cash-flow gaps across a variety of horizons.

Further, certain of these metrics are monitored for each of us, our banking subsidiaries, and for our consolidated enterprise on a daily basis, including net overnight position, unencumbered securities, internal liquidity, available FHLB borrowing capacity and total contingent liquidity. In order to identify emerging trends and risks and inform funding decisions, specific metrics are also forecasted over a one-year horizon.

Cash flows from operating activities contributed \$515 million in the first six months of 2015, reflecting an increase in other assets compared to the first six months of 2014. Net cash used by investing activities was \$5.0 billion, primarily reflecting net securities available for sale portfolio purchases of \$4.1 billion and a net increase in loans and leases of \$3.6 billion, partially offset by proceeds from maturities, paydowns and sales of securities available for sale of \$3.1 billion. Cash provided by financing activities was \$4.0 billion, driven by a net increase in deposits of \$4.9 billion. These activities represented a cumulative decrease in cash and cash equivalents of \$407 million, which, when added to the cash and cash equivalents balance of \$3.3 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of \$2.9 billion as of June 30, 2015.

For the first six months of 2014, our operating activities contributed \$1.0 billion in net cash, included an increase in other liabilities, which added \$335 million, and depreciation, amortization and accretion, which added \$196 million. For the first six months of 2014, net cash used by investing activities was \$5.6 billion, primarily reflecting net securities available for sale portfolio purchases of \$4.3 billion, a net increase in loans and leases of \$2.2 billion, securities held to maturity portfolio purchases of \$1.2 billion, partially offset by proceeds from maturities, paydowns and sales of securities available for sale of \$2.1 billion. Finally, for the first six months of 2014, cash contributed by financing activities was \$7.2 billion, including a net increase in other short-term borrowed funds of \$5.5 billion and a net increase in federal funds purchased and securities sold under agreements to repurchase of \$2.0 billion. These activities represented a cumulative increase in cash and cash equivalents of \$2.6 billion, which, when added to cash and cash equivalents of \$2.8 billion at the beginning of the period, resulted in an ending balance of cash and cash equivalents of \$5.4 billion as of June 30, 2014.

#### Off-Balance Sheet Commitments

The following table presents our outstanding off-balance sheet commitments. See Note 13 "Commitments and Contingencies" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report:

(dollars in millions)	June 30, 2015	December 31, 2014	Change	Percent
Commitment amount:				
Undrawn commitments to extend credit	\$55,887	\$55,899	(\$12 )	— %
Financial standby letters of credit	2,181	2,315	(134 )	(6 )
Performance letters of credit	55	65	(10 )	(15 )
Commercial letters of credit	59	75	(16 )	(21 )
Marketing rights	49	51	(2 )	(4 )
Risk participation agreements	22	19	3	16
Residential mortgage loans sold with recourse	12	11	1	9
Total	\$58,265	\$58,435	(\$170 )	— %



CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

In June 2015, the Company entered into an agreement to purchase student loans on a quarterly basis in future periods. Under the terms of the agreement, the Company purchased loans with outstanding balances of \$202 million during June 2015 and committed to purchase a minimum of \$100 million to a maximum of \$163 million per quarter for the subsequent three consecutive quarters through the first quarter 2016. The maximum amount of cumulative loan purchases under the terms of the agreement is \$700 million. The agreement may be extended by the mutual agreement of the parties for an additional four quarters. The Company may terminate the agreement at will with payment of a variable termination fee.

In June 2015, we amended our agreement originally entered into in May 2014, to purchase automobile loans on a quarterly basis in future periods. Commencing on the effective date and through July 31, 2015, the amended agreement requires the purchase of a minimum of \$250 million of outstanding balances to a maximum of \$600 million per quarterly period. For quarterly periods on or after August 1, 2015, the minimum and maximum purchases are \$50 million and \$200 million, respectively. The agreement automatically renews until terminated by either party. We may cancel the agreement at will with payment of a variable termination fee. After three years, there is no termination fee.

#### Critical Accounting Estimates

Our unaudited interim Consolidated Financial Statements, which are included elsewhere in this report, are prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to establish accounting policies and make estimates that affect amounts reported in our audited Consolidated Financial Statements. An accounting estimate requires assumptions and judgments about uncertain matters that could have a material effect on our unaudited interim Consolidated Financial Statements. Estimates are made using facts and circumstances known at a point in time. Changes in those facts and circumstances could produce results substantially different from those estimates. The most significant accounting policies and estimates and their related application are discussed below. See Note 1 "Significant Accounting Policies" to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014, for further discussion of our significant accounting policies.

#### Allowance for Credit Losses

Management's estimate of probable losses in our loan and lease portfolios including unfunded lending commitments is recorded in the allowance for loan and lease losses and the reserve for unfunded lending commitments, at levels that we believe to be appropriate as of the balance sheet date. Our determination of such estimates is based on a periodic evaluation of the loan and lease portfolios and unfunded credit facilities, as well as other relevant factors. This evaluation is inherently subjective and requires significant estimates and judgments of underlying factors, all of which are susceptible to change.

The allowance for loan and lease losses and reserve for unfunded lending commitments could be affected by a variety of internal and external factors. Internal factors include portfolio performance such as delinquency levels, assigned risk ratings, the mix and level of loan balances, differing economic risks associated with each loan category and the financial condition of specific borrowers. External factors include fluctuations in the general economy, unemployment rates, bankruptcy filings, developments within a particular industry, changes in collateral values and factors particular to a specific commercial credit such as competition, business and management performance. The allowance for loan and lease losses may be adjusted to reflect our current assessment of various qualitative risks, factors and events that may not be measured in our statistical procedures. There is no certainty that the allowance for loan and lease losses and reserve for unfunded lending commitments will be appropriate over time to cover losses because of unanticipated adverse changes in any of these internal, external or qualitative factors.

The evaluation of the adequacy of the commercial, commercial real estate, and lease allowance for loan and lease losses and reserve for unfunded lending commitments is primarily based on risk rating models that assess probability of default, loss given default and exposure at default on an individual loan basis. The models are primarily driven by individual customer financial characteristics and are validated against historical experience. Additionally, qualitative factors may be included in the risk rating models. After the aggregation of individual borrower incurred loss, additional overlays can be made based on back-testing against historical losses and forward loss curve ratios.

For nonaccruing commercial and commercial real estate loans with an outstanding balance of \$3 million or greater and for all commercial and commercial real estate TDRs (regardless of size), we conduct specific analysis on a loan level basis to determine the probable amount of credit loss. If appropriate, a specific allowance is established for the loan through a charge to the provision for credit losses. For all classes of impaired loans, individual loan measures of impairment may result in a charge-off to the allowance for loan and lease losses, if deemed appropriate. In such cases, the provision for credit losses is not affected when a specific reserve for at least that amount already exists. Techniques utilized include comparing the loan's carrying amount to the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan's observable market

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

price. The technique applied to each impaired loan is based on the workout officer's opinion of the most probable workout scenario. Historically this has generally led to the use of the estimated present value of future cash flows approach. The fair value of underlying collateral will be used if the loan is deemed collateral dependent. For loans that use the fair value of underlying collateral approach, a charge-off assessment is performed quarterly to write the loans down to fair value.

For most non-impaired retail loan portfolio types, the allowance for loan and lease losses is based upon the incurred loss model utilizing the PD, LGD and exposure at default on an individual loan basis. When developing these factors, we may consider the loan product and collateral type, LTV ratio, lien position, borrower's credit, time outstanding, geographic location, delinquency status and incurred loss period. Incurred loss periods are reviewed and updated at least annually, and potentially more frequently when economic situations change rapidly, as they tend to fluctuate with economic cycles. Incurred loss periods are generally longer in good economic times and shorter in bad times. Certain retail portfolios, including SBO home equity loans, student loans, and commercial credit card receivables utilize roll rate models to estimate the ALLL. For the portfolios measured using the incurred loss model, roll rate models are also run as challenger models and can be used to support management overlays if deemed necessary. For home equity lines and loans, a number of factors impact the PD. Specifically, the borrower's current FICO score, the utilization rate, delinquency statistics, borrower income, current CLTV ratio and months on books are all used to assess the borrower's creditworthiness. Similarly, the loss severity is also impacted by various factors, including the utilization rate, the CLTV ratio, the lien position, the Housing Price Index change for the location (as measured by the Case-Shiller index), months on books and current loan balance.

When we are not in a first lien position, we use delinquency information on the first lien exposures obtained from third-party credit information providers in the credit assessment. For all first liens, whether owned by a third party or by us, an additional assessment is performed on a quarterly basis. In this assessment, the most recent three months' performance of the senior liens is reviewed for delinquency (90 days or more past due), modification, foreclosure and/or bankruptcy statuses. If any derogatory status is present, the junior lien will be placed on nonaccrual status regardless of its delinquency status on our books. This subsequent change to nonaccrual status will alter the treatment in the PD model, thus affecting the reserve calculation.

In addition, the first lien exposure is combined with the second lien exposure to generate a CLTV. The CLTV is a more accurate reflection of the leverage of the borrower against the property value, as compared to the LTV from just the junior lien(s). The CLTV is used for modeling both the junior lien PD and LGD. This also impacts the Allowance for Loan Loss rates for the junior lien HELOCs.

The above measures are all used to assess the PD and LGD for HELOC borrowers for whom we originated the loans. There is also a portfolio of home equity products that were originated and serviced by others; however, we currently service some of the loans in this portfolio. The SBO portfolio is modeled as a separate class and the reserves for this class are generated by using the delinquency roll rate models as described below.

For retail TDRs that are not collateral-dependent, allowances are developed using the present value of expected future cash flows, compared to the recorded investment in the loans. Expected re-default factors are considered in this analysis. Retail TDRs that are deemed collateral-dependent are written down to the fair market value of the collateral less costs to sell. The fair value of collateral is periodically monitored subsequent to the modification.

Changes in the levels of estimated losses, even if minor, can significantly affect management's determination of an appropriate allowance for loan and lease losses. For consumer loans, losses are affected by such factors as loss severity, collateral values, economic conditions, and other factors. A 1% and 5% increase in the estimated loss rate for consumer loans at December 31, 2014 would have increased the allowance by \$5 million and \$27 million, respectively. The allowance for loan and lease losses for our Commercial Banking segment is sensitive to assigned credit risk ratings and inherent loss rates. If 10% and 20% of the December 31, 2014 year ended loan balances (including unfunded commitments) within each risk rating category of our Commercial Banking segment had experienced downgrades of two risk categories, the allowance for loan and lease losses would have increased by \$30 million and \$59 million, respectively.

Commercial loans and leases are charged off to the allowance when there is little prospect of collecting either principal or interest. Charge-offs of commercial loans and leases usually involve receipt of borrower-specific adverse information. For commercial collateral-dependent loans, an appraisal or other valuation is used to quantify a shortfall between the fair value of the collateral less costs to sell and the recorded investment in the commercial loan. Retail loan charge-offs are generally based on established delinquency thresholds rather than borrower-specific adverse information. When a loan is collateral-dependent, any shortfalls between the fair value of the collateral less costs to sell and the recorded investment is promptly charged off. Placing any loan or lease on nonaccrual status does not by itself require a partial or total charge-off; however, any identified losses are charged off at that time. For additional information regarding the allowance for loan and lease losses and reserve for unfunded lending commitments, see Note 1 “Significant Accounting Policies” to our audited Consolidated Financial Statements in the Annual Report

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

on Form 10-K for the year ended December 31, 2014 and Note 4 "Allowance for Credit Losses, Nonperforming Assets and Concentrations of Credit Risk" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

Fair Value

We measure fair value using the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based upon quoted market prices in an active market, where available. If quoted prices are not available, observable market-based inputs or independently sourced parameters are used to develop fair value, whenever possible. Such inputs may include prices of similar assets or liabilities, yield curves, interest rates, prepayment speeds and foreign exchange rates.

We classify our assets and liabilities that are carried at fair value in accordance with the three-level valuation hierarchy:

Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar instruments; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by market data for substantially the full term of the asset or liability; and

Level 3. Unobservable inputs that are supported by little or no market information and that are significant to the fair value measurement.

Classification in the hierarchy is based upon the lowest level input that is significant to the fair value measurement of the asset or liability. For instruments classified in Level 1 and 2 where inputs are primarily based upon observable market data, there is less judgment applied in arriving at the fair value. For instruments classified in Level 3, management judgment is more significant due to the lack of observable market data.

Significant assets measured at fair value on a recurring basis include our mortgage-backed securities available for sale. These instruments are priced using an external pricing service and are classified as Level 2 within the fair value hierarchy. The service's pricing models use predominantly observable valuation inputs to measure the fair value of these securities under both the market and income approaches. The pricing service utilizes a matrix pricing methodology to price our U.S. agency pass-through securities, which involves making adjustments to to-be-announced security prices based on a matrix of various mortgage-backed securities characteristics such as weighted-average maturities, indices and other pool-level information. Other agency and non-agency mortgage-backed securities are priced using a discounted cash flow methodology. This methodology includes estimating the cash flows expected to be received for each security using projected prepayment speeds and default rates based on historical statistics of the underlying collateral and current market conventions. These estimated cash flows are then discounted using market-based discount rates that incorporate characteristics such as average life, volatility, ratings, performance of the underlying collateral, and prevailing market conditions.

We review and update the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs in fair value measurements may result in a reclassification between the fair value hierarchy levels and are recognized based on year-end balances. We also verify the accuracy of the pricing provided by our primary external pricing service on a quarterly basis. This process involves using a secondary external vendor to provide valuations for our securities portfolio for comparison purposes. Any securities with discrepancies beyond a certain threshold are researched and, if necessary, valued by an independent outside broker. Fair value is also used on a nonrecurring basis to evaluate certain assets for impairment or for disclosure purposes. Examples of nonrecurring uses of fair value include mortgage servicing rights accounted for by the amortization method, loan impairments for certain loans and goodwill.

For additional information regarding our fair value measurements, see Note 1 "Significant Accounting Policies" to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014, and Note 2 "Securities," Note 7 "Mortgage Banking," and Note 12 "Derivatives" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

Goodwill



Goodwill is an asset that represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is not amortized, but is subject to annual impairment tests. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. A reporting unit is a business operating segment or a component of a business operating segment. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is deemed to be not impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangible assets as if the reporting unit were being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. We review goodwill for impairment annually as of October 31 or more often if events or circumstances indicate that it is more likely than not that the fair value of one or more reporting units is below its carrying value. We rely on the income approach (discounted cash flow method) as the primary method for determining fair value. Market-based methods are used as benchmarks to corroborate the value determined by the discounted cash flow method. We rely on several assumptions when estimating the fair value of our reporting units using the discounted cash flow method. These assumptions include the current discount rate, as well as projected loan losses, income taxes and capital retention rates. Discount rates are estimated based on the Capital Asset Pricing Model, which considers the risk-free interest rate, market risk premium, beta and unsystematic risk and size premium adjustments specific to a particular reporting unit. The discount rates are also calibrated on the assessment of the risks related to the projected cash flows of each reporting unit. Multi-year financial forecasts are developed for each reporting unit by considering several key business drivers such as new business initiatives, customer retention standards, market share changes, anticipated loan and deposit growth, forward interest rates, historical performance and industry and economic trends, among other considerations. The long-term growth rate used in determining the terminal value of each reporting unit was estimated based on management's assessment of the minimum expected terminal growth rate of each reporting unit, as well as broader economic considerations such as gross domestic product and inflation. We corroborate the fair value of our reporting units determined by the discounted cash flow method using market-based methods: a comparable company method and a comparable transaction method. The comparable company method measures fair value of a business by comparing it to publicly traded companies in similar lines of business. This involves identifying and selecting the comparable companies based on a number of factors (i.e., size, growth, profitability, risk and return on investment), calculating the market multiples (i.e., price-to-tangible book value, price-to-cash earnings and price-to-net income) of these comparable companies and then applying these multiples to our operating results to estimate the value of the reporting unit's equity on a marketable, minority basis. A control premium is then applied to this value to estimate the fair value of the reporting unit on a marketable, controlling basis. The comparable transaction method measures fair value of a business based on exchange prices in actual transactions and on asking prices for controlling interests in public or private companies currently offered for sale. The process involves comparison and correlation of us with other similar companies. Adjustments for differences in factors described earlier (i.e., size, growth, profitability, risk and return on investment) are also considered. As a best practice, we also corroborate the fair value of our reporting units determined by the discounted cash flow method by adding the aggregated sum of these fair value measurements to the fair value of our non-segment operations and comparing this total to our observed market capitalization. As part of this process, we analyze the implied control premium to evaluate its reasonableness. All facts and circumstances are considered when completing this analysis, including observed transaction data and any additional external evidence supporting the implied control premium. The valuation of goodwill is dependent on forward-looking expectations related to the performance of the U.S. economy and our associated financial performance. The prolonged delay in the full recovery of the U.S. economy, and

the impact of that delay on earnings expectations, prompted a goodwill impairment test as of June 30, 2013. Although the U.S. economy has demonstrated signs of recovery, notably improvements in unemployment and housing, the pace and extent of recovery in these indicators, as well as in overall gross domestic product, have lagged previous expectations. The impact of the slow recovery is most evident in our Consumer Banking reporting unit. Accordingly, the percentage by which the estimated fair value of our Consumer Banking reporting unit exceeded its carrying value declined from 7% at December 31, 2011 to 5% at December 31, 2012.

During the first half of 2013, we observed further deceleration of expected growth for our Consumer Banking reporting unit's future profits based on forecasted economic growth for the U.S. economy and the continuing impact of the new regulatory framework in the financial industry. This deceleration was incorporated into our revised earnings forecast in the second quarter

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

of 2013, and we subsequently concluded that there was a likelihood of greater than 50% that goodwill impairment had occurred as of June 30, 2013.

An interim goodwill impairment test was subsequently performed for our Consumer Banking and Commercial Banking reporting units. Step One of these tests indicated that (1) the fair value of our Consumer Banking reporting unit was less than its carrying value by 19% and (2) the fair value of our Commercial Banking reporting unit exceeded its carrying value by 27%. Step Two of the goodwill impairment test was subsequently performed for our Consumer Banking reporting unit, which resulted in the recognition of a pre-tax \$4.4 billion impairment charge in our Consolidated Statement of Operations for the period ending June 30, 2013. The impairment charge, which was a non-cash item, had minimal impact on our tier 1 risk-based and total risk-based capital ratios. The impairment charge had no impact on our liquidity position or tangible common equity.

We performed an annual test for impairment of goodwill for both reporting units as of October 31, 2014. As of this testing date, the percentage by which the fair value of our Consumer Banking reporting unit exceeded its carrying value was 12%, and the percentage by which the fair value of our Commercial Banking reporting unit exceeded its carrying value was 9%.

We based the fair value estimates used in our annual goodwill impairment testing on assumptions we believe to be representative of assumptions that a market participant would use in valuing the reporting units but that are unpredictable and inherently uncertain, including estimates of future growth rates and operating margins and assumptions about the overall economic climate and the competitive environment for our reporting units. There can be no assurances that future estimates and assumptions made for purposes of goodwill testing will prove accurate predictions of the future. If the assumptions regarding business plans, competitive environments or anticipated growth rates are not achieved, we may be required to record goodwill impairment charges in future periods.

For additional information regarding our goodwill impairment testing, see Note 1 "Significant Accounting Policies" to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014 and Note 6 "Goodwill" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

#### Income Taxes

Accrued income taxes are reported as a component of either other assets or other liabilities, as appropriate, in the Consolidated Balance Sheets and reflect our estimate of income taxes to be paid or that effectively have been prepaid. Deferred income tax assets and liabilities represent the amount of future income taxes to be paid or that effectively have been prepaid, and the net balance is reported as an asset or liability in the Consolidated Balance Sheets. We determine the realization of the deferred tax asset based upon an evaluation of the four possible sources of taxable income: (1) the future reversals of taxable temporary differences; (2) future taxable income exclusive of reversing temporary differences and carryforwards; (3) taxable income in prior carryback years; and (4) tax planning strategies. In projecting future taxable income, we utilize forecasted pre-tax earnings, adjust for the estimated book tax differences and incorporate assumptions, including the amount of income allocable to taxing jurisdictions. These assumptions require significant judgment and are consistent with the plans and estimates that we use to manage the underlying businesses. The realization of the deferred tax assets could be reduced in the future if these estimates are significantly different than forecasted.

We are subject to income tax in the United States and multiple state and local jurisdictions. The tax laws and regulations in each jurisdiction may be interpreted differently in certain situations, which could result in a range of outcomes. Thus, we are required to exercise judgment regarding the application of these tax laws and regulations. We evaluate and recognize tax liabilities related to any tax uncertainties. Due to the complexity of some of these uncertainties, the ultimate resolution may differ from the current estimate of tax liabilities or refunds.

Our estimate of accrued income taxes, deferred income taxes and income tax expense can also change in any period as a result of new legislative or judicial guidance impacting tax positions, as well as changes in income tax rates. Any changes, if they occur, can be significant to our consolidated financial position, results of operations or cash flows.

For additional information regarding income taxes, see Note 1 “Significant Accounting Policies” to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014 and Note 11 “Income Taxes” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Risk Governance

We are committed to maintaining a strong, integrated and proactive approach to the management of all risks to which we are exposed in pursuit of our business objectives. A key aspect of our Board's responsibility as the main decision making body is setting our risk appetite to ensure that the levels of risk that we are willing to accept in the attainment of our strategic business and financial objectives are clearly understood.

To enable the Board to carry out its objectives, it has delegated authority for risk management activities, as well as governance and oversight of those activities, to a number of Board and executive management level risk committees. The key committees that specifically consider risk across the enterprise are set out in the diagram below.

Chief Risk Officer

The CRO directs our overall risk management function overseeing the compliance, regulatory, operational and credit risk management. In addition, the CRO has oversight of the management of market, liquidity and strategic risks. The CRO reports to our CEO and Board Risk Committee.

Risk Framework

Our risk management framework is embedded in our business through a "Three Lines of Defense" model which defines responsibilities and accountabilities.

First Line of Defense

The business lines (including their associated support functions) are the First Line of Defense and are accountable for owning and managing, within our defined risk appetite, the risks which exist in their respective business areas. The business lines are responsible for performing regular risk assessments to identify and assess the material risks that arise in their area of responsibility, complying with relevant risk policies, testing and certifying the adequacy and effectiveness of their controls on a regular basis, establishing and documenting operating procedures and establishing and owning a governance structure for identifying and managing risk.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Second Line of Defense

The Second Line of Defense includes independent monitoring and control functions accountable for developing and ensuring implementation of risk and control frameworks, oversight of risk, financial management and valuation, and regulatory compliance. This centralized risk function is appropriately independent from the business and is accountable for overseeing and challenging our business lines on the effective management of their risks. This risk function utilizes training, communications and awareness to provide expert support and advice to the business lines. This includes interpreting the risk policy standards and risk management framework, overseeing compliance by the businesses with policies and responsibilities, including providing relevant management information and escalating concerns where appropriate.

The Executive Risk Committee, chaired by the CRO, actively considers our inherent material risks, analyzes our overall risk profile and seeks confirmation that the risks are being appropriately identified, assessed and mitigated.

Third Line of Defense

Our internal audit function is the Third Line of Defense acting as an independent appraisal and assurance function. As an independent assurance function, internal audit ensures the key business risks are being managed to an acceptable level and that the risk management and internal control framework is operating effectively. Independent assessments are provided to our Audit Committee on a quarterly basis in the form of quarterly opinions. In addition, individual audit reports and monthly control reports are issued to executive management.

Risk Appetite

Risk appetite is a strategic business and risk management tool. We define our risk appetite as the maximum limit of acceptable risk beyond which we would either be unable to achieve our strategic objectives and capital adequacy obligations or would assume an unacceptable amount of risk to do so. The Board Risk Committee advises our Board of Directors in relation to current and potential future risk strategies, including determination of risk appetite and tolerance.

The principal non-market risks to which we are subject are: credit risk, operational risk, liquidity risk, strategic risk and reputational risk. We are also subject to market risks. Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and/or other relevant market rates or prices. Modest market risk arises from trading activities that serve customer needs, including hedging of interest rate and foreign exchange risk. As described below, more material market risk arises from our non-trading banking activities, such as loan origination and deposit gathering. We have established enterprise-wide policies and methodologies to identify, measure, monitor and report market risk. We actively manage both trading and non-trading market risks. We are also subject to liquidity risk, discussed under “—Liquidity.”

Our risk appetite framework and risk limit structure establishes guidelines to determine the balance between existing and desired levels of risk and supports the implementation, measurement and management of our risk appetite policy.

Credit Risk

Overview

Credit risk represents the potential for loss arising from a customer, counterparty, or issuer failing to perform in accordance with the contractual terms of the obligation. While the majority of our credit risk is associated with lending activities, we do engage with other financial counterparties for a variety of purposes including investing, asset and liability management, and trading activities. Given the financial impact of credit risk on our earnings and balance sheet, the assessment, approval, and management of credit risk represents a major part of our overall risk-management responsibility.

Objective

The credit risk management organization is responsible for approving credit transactions, monitoring portfolio performance, identifying problem loans, and ensuring remedial management.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Organizational Structure

Management and oversight of credit risk is the responsibility of both the line of business and the second line of defense. The second line of defense, the independent Credit Risk Function, is led by the CCO who oversees all of our credit risk. The CCO reports to the Chief Risk Officer. The CCO, acting in a manner consistent with Board policies, has responsibility for, among other things, the governance process around policies, procedures, risk acceptance criteria, credit risk appetite, limits, and authority delegation. The CCO and his team also have responsibility for credit approvals for larger or more risky transactions and oversight of line of business credit risk activities. Reporting to the CCO are the heads of the second line of defense credit functions specializing in: Consumer Banking; Business Banking; Commercial Banking; Citizens Restructuring Management; Portfolio Analytics and Reporting; and Credit Policy and Administration. Each team under these leaders is composed of highly experienced credit professionals. The credit risk teams operate independently from the business lines to ensure decisions are not influenced by unbalanced objectives. Each team is composed of senior credit officers who possess extensive experience structuring and approving loans.

#### Governance

The primary mechanisms used to govern our credit risk function are our consumer and commercial credit policies. These policies outline the minimum acceptable lending standards that align with our desired risk appetite. Material issues or changes are identified by the individual committees and presented to the Credit Policy Committee, Executive Risk Committee and the Board for approval as required.

#### Key Management Processes

To ensure credit risks are managed within our risk appetite and business and risk strategies are achieved, we employ a comprehensive and integrated control program. The program's objective is to proactively (1) identify, (2) measure, (3) monitor, and (4) mitigate existing and emerging credit risks across the lifecycle (origination, account management/portfolio management, and loss mitigation and recovery).

On the consumer banking side of credit risk, our teams use models to evaluate consumer loans across the lifecycle of the loan. Starting at origination, credit scoring models are used to forecast the probability of default of an applicant. These models are embedded in the loan origination system, which allows for real-time scoring and automated decisions for many of our products. Periodic validations are performed on our purchased and proprietary scores to ensure fit for purpose. When approving customers for a new loan or extension of an existing credit line, credit scores are used in conjunction with other credit risk variables such as affordability, length of term, collateral value, collateral type, and lien subordination.

The origination process is supported by dedicated underwriting teams that reside in the business line. The size of each team depends on the intensity of the approval process as the number of handoffs, documentation, and verification requirements differ substantially depending on the loan product.

To ensure proper oversight of the underwriting teams, lending authority is granted by credit risk to each underwriter. The amount of delegated authority depends on the experience of the individual. We periodically evaluate the performance of each underwriter and annually reauthorize their delegated authority. Only senior members of the credit risk team are authorized to grant significant exceptions to credit policies. It is not uncommon to make exceptions to established policies when compensating factors are present. These exceptions are capped at 5% of origination volume and tracked separately to ensure performance expectations are achieved.

Once an account is established, credit scores and collateral values are refreshed at regular intervals to allow for proactive identification of increasing or decreasing levels of credit risk. For accounts with contingent liability (revolving feature), credit policies have been developed that leverage the refreshed customer data to determine if a credit line should be increased, decreased, frozen, or closed. Lastly, behavioral modeling, segmentation, and loan modifications are used to cure delinquency, reduce the severity of loss, and maximize recoveries. Our approach to managing credit risk is highly analytical and, where appropriate, is automated, to ensure consistency and efficiency. One of the central tools used to manage credit risk is the Consumer and Small Business Credit Risk Dashboard. This dashboard is refreshed monthly and evaluates key dimensions of credit risk against defined control parameters, commonly referred to as inner and outer limits. Inner limits are designed to alert senior management of unfavorable



trends with sufficient lead time to address and implement corrective actions before the risks increase in materiality. Outer limits represent the maximum risk tolerance, which if breached, would necessitate immediate escalation and corrective action. All limits are recalibrated annually and aligned with pro forma budget expectations and desired risk profile.

The credit risk team is constantly evaluating current and projected economic conditions, internal credit performance in relation to budget and predefined risk tolerances, and current and expected regulatory guidance to determine the optimal balance of expansion and contraction policies. All policy change proposals receive intense scrutiny and discussion prior to approval and

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

implementation. This process ensures decisions are made based on profit-based analytics with full consideration to operational and regulatory risks.

On the commercial banking side of credit risk, the structure is broken into C&I loans and leases and CRE. Within C&I there are separate verticals established for certain specialty products (e.g., asset-based lending, leasing, franchise finance, health care, technology, mid-corporate). A "specialty vertical" is a stand-alone team of industry or product specialists. Substantially all activity that falls under the ambit of the defined industry or product is managed through a specialty vertical when one exists. CRE also operates as a specialty vertical.

Commercial credit risk management begins with defined credit products and policies. New credit products and material changes to existing credit products require multiple levels of review and approval. The initial level of review involves the engagement of risk disciplines from across the enterprise for a New Product Risk Assessment. This assessment process reviews the product description, strategic rationale and financial impact and considers the risk impact from multiple perspectives (Reputation, Operational, Regulatory, Market, Legal as well as Credit).

Commercial transactions are subject to individual analysis and approval at origination and, with few exceptions, are subject to a formal annual review requirement. The underwriting process includes the establishment and approval of Credit Grades that confirm the PD and LGD. Approval then requires both a business line approver and an independent Credit Approver. The approval level is determined by the size of the credit relationship as well as the PD with larger relationships and weaker PD's requiring the approval of more senior individuals. The checks and balances in the credit process and the independence of the credit approver function are designed to appropriately assess and sanction the level of credit risk being accepted, facilitate the early recognition of credit problems when they occur, and to provide for effective problem asset management and resolution. All authority to grant credit is delegated through the independent Credit Risk function and is closely monitored and regularly updated.

The primary factors considered in commercial credit approvals are the financial strength of the borrower, assessment of the borrower's management capabilities, cash flows from operations, industry sector trends, type and sufficiency of collateral, type of exposure, transaction structure, and the general economic outlook. While these are the primary factors considered, there are a number of other factors that may be considered in the decision process. In addition to the credit analysis conducted during the approval process at origination and annual review, our Credit Quality Assurance group performs testing to provide an independent review and assessment of the quality of the portfolio and new originations. This group conducts portfolio reviews on a risk-based cycle to evaluate individual loans, validate risk ratings, as well as test the consistency of the credit processes.

The maximum level of credit exposure to individual credit borrowers is limited by policy guidelines based on the perceived risk of each borrower or related group of borrowers. Concentration risk is managed through limits on industry (sector), loan type (asset class), and loan quality factors. We focus predominantly on extending credit to commercial customers with existing or expandable relationships within our Company footprint, although we will consider lending opportunities outside our primary markets if we believe that the associated risks are acceptable and aligned with strategic initiatives. Geographic considerations occur at both the transactional level as well as the product level, as certain specialties operate on a national basis.

Our management of risk concentrations includes the establishment of sector and asset class limits. We have identified 34 sectors and established limits for 18 that we have deemed meaningful by virtue of size or inherent risk. These sector limits are reviewed and approved annually. Exposure against these limits is tracked on a monthly basis. The two largest sector concentrations are Industrials and CRE.

Apart from Industrials and CRE (which together make up 30% of the commercial utilization as of June 30, 2015), we do not have any major sector concentrations. As of June 30, 2015, our CRE outstandings amounted to 8% of total outstanding loans. The Industrial sector includes basic C&I lending focused on general manufacturing. The sector is diversified and not managed as a specialized vertical. Our customers are local to our market and present no significant concentration.

Our credit grading system considers many components that directly correlate to loan quality and likelihood of repayment. Our assessment of a borrower's credit strength is reflected in our risk ratings for such loans, which are an integral component of our allowance for loan and lease losses methodology. When deterioration in credit strength is

noted, a loan becomes subject to Watch Review. The Watch Review process involves senior representatives from the business line portfolio management team, the independent Credit Risk team, and our Citizens Restructuring Management group. As appropriate and consistent with regulatory definitions, the credit may be subject to classification as either Criticized or Classified, which would also trigger a credit rating downgrade. As such, the loan and relationship would be subject to more frequent review.

Substantially all loans categorized as Classified are managed by Citizens Restructuring Management. Citizens Restructuring Management is a specialized group of credit professionals that handles the day-to-day management of workouts, commercial recoveries, and problem loan sales. Its responsibilities include developing and implementing action plans, assessing risk ratings, determining the appropriateness of specific reserves relating to the loan, accrual status of the loan, and the ultimate collectability of loans in their portfolio.

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

### Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and/or other relevant market rates or prices. Modest market risk arises from trading activities that serve customer needs, including hedging of interest rate and foreign exchange risk. As described below, more material market risk arises from our non-trading banking activities, such as loan origination and deposit-gathering. We have established enterprise-wide policies and methodologies to identify, measure, monitor and report market risk. We actively manage both trading and non-trading market risks.

### Non-Trading Risk

We are exposed to market risk as a result of non-trading banking activities. This market risk is composed entirely of interest rate risk, as we have no direct currency, equity or commodity risk. This interest rate risk emerges from the balance sheet after the aggregation of our assets, liabilities and equity. We refer to this non-trading risk embedded in the balance sheet as "structural interest rate risk" or "interest rate risk in the banking book." Our mortgage servicing rights assets also contain interest rate risk as the value of the fee stream is impacted by the level of long-term interest rates. A major source of structural interest rate risk is a difference in the repricing of assets, on the one hand, and liabilities and equity, on the other. First, there are differences in the timing of rate changes reflecting the maturity and/or repricing of assets and liabilities. For example, the rate earned on a residential mortgage may be fixed for 30 years; the rate paid on a certificate of deposit may be fixed only for a few months. Due to these timing differences, net interest income is sensitive to changes in the level and shape of the yield curve. Second, there are differences in the drivers of rate changes of various assets and liabilities. For example, commercial loans may reprice based on one-month LIBOR or prime; the rate paid on retail money market demand accounts may be only loosely correlated with LIBOR and depend on competitive demand for funds. Due to these basis differences, net interest income is sensitive to changes in spreads between certain indices or repricing rates.

Another important source of structural interest rate risk relates to the potential exercise of explicit or embedded options. For example, most consumer loans can be prepaid without penalty; and most consumer deposits can be withdrawn without penalty. The exercise of such options by customers can exacerbate the timing differences discussed above.

A primary source of our structural interest rate risk relates to faster repricing of floating rate loans relative to the retail deposit funding. This source of asset sensitivity is concentrated at the short end of the yield curve. Given the very low level of short-term interest rates, this risk is asymmetrical with significantly more upside benefit than potential exposure. The secondary source of our interest rate risk is driven by longer term rates comprising the rollover or reinvestment risk on fixed rate loans as well as the prepayment risk on mortgage related loans and securities funded by non-rate sensitive deposits and equity.

The primary goal of interest rate risk management is to control exposure to interest rate risk within policy limits approved by the Board. These limits and guidelines reflect our tolerance for interest rate risk over both short-term and long-term horizons. To ensure that exposure to interest rate risk is managed within this risk appetite, we must both measure the exposure and, as necessary, hedge it. The Treasury Asset and Liability Management team is responsible for measuring, monitoring and reporting on the structural interest rate risk position. These exposures are reported on a monthly basis to the Asset and Liability Committee and at Board meetings.

We measure structural interest rate risk through a variety of metrics intended to quantify both short-term and long-term exposures. The primary method that we use to quantify interest rate risk is simulation analysis in which we model net interest income from assets, liabilities and hedge derivative positions under various interest rate scenarios over a three-year horizon. Exposure to interest rate risk is reflected in the variation of forecasted net interest income across scenarios.

Key assumptions in this simulation analysis relate to the behavior of interest rates and spreads, the changes in product balances and the behavior of loan and deposit clients in different rate environments. The most material of these behavioral assumptions relate to the repricing characteristics and balance fluctuations of deposits with indeterminate (i.e., non-contractual) maturities as well as the pace of mortgage prepayments.

As the future path of interest rates cannot be known in advance, we use simulation analysis to project net interest income under various interest rate scenarios including a “most likely” (implied forward) scenario as well as a variety of deliberately extreme and perhaps unlikely scenarios. These scenarios may assume gradual ramping of the overall level of interest rates, immediate shocks to the level of rates and various yield curve twists in which movements in short- or long-term rates predominate. Generally,

120

---

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

projected net interest income in any interest rate scenario is compared to net interest income in a base case where market forward rates are realized.

The table below reports net interest income exposures against a variety of interest rate scenarios. Exposures are measured as a percentage change in net interest income over the next year due to either instantaneous, or gradual parallel +/- 200 basis point moves in benchmark interest rates. The net interest income simulation analyses do not include possible future actions that management might undertake to mitigate this risk. The current limit is an adverse change of 10% related to an instantaneous +/- 200 basis point move. As the table illustrates, our balance sheet is asset-sensitive: net interest income would benefit from an increase in interest rates. Exposure to a decline in interest rates is well within limit. It should be noted that the magnitude of any possible decline in interest rates is constrained by the low absolute starting levels of rates. While an instantaneous and severe shift in interest rates was used in this analysis, we believe that any actual shift in interest rates would likely be more gradual and would therefore have a more modest impact.

The table below summarizes our positioning in various parallel yield curve shifts:

Basis points	Estimated % Change in Net Interest Income over 12 Months		
	Tolerance Level	June 30, 2015	December 31, 2014
<b>Instantaneous Change in Interest Rates</b>			
+200	(10%)	13.0%	13.4%
+100		6.8	7.0
-100		(4.6)	(3.8)
-200	(10)	(5.7)	(4.3)
<b>Gradual Change in Interest Rates</b>			
+200		6.8	6.8
+100		3.5	3.5
-100		(2.6)	(2.3)
-200		(3.7)	(3.0)

As part of the routine risk management process, a wide variety of similar analyses are reported for each of the next three rolling years.

As recommended by bank regulators, we also use a valuation measure of exposure to structural interest rate risk, Economic Value of Equity, as a supplement to net interest income simulations. Nevertheless, multi-year net interest income simulation is the main tool for managing structural interest rate risk.

We are asset sensitive and as such are positioned to benefit from an increase in interest rates. The magnitude of this asset-sensitivity has remained relatively stable over the past year.

We also had market risk associated with the value of the mortgage servicing right assets, which are impacted by the level of interest rates. As of June 30, 2015 and December 31, 2014, our mortgage servicing rights had a book value of \$166 million, and were carried at the lower of cost or fair value. As of June 30, 2015, and December 31, 2014, the fair value of the mortgage servicing rights was \$180 million and \$179 million, respectively. Given low interest rates over recent years, there is a valuation allowance of \$11 million and \$18 million on the asset as of June 30, 2015 and December 31, 2014, respectively. Depending on the interest rate environment, hedges may be used to stabilize the market value of the mortgage servicing right asset.

#### Trading Risk

We are exposed to market risk primarily through client facilitation activities including derivatives and foreign exchange products. Exposure is created as a result of the implied volatility and spreads of a select range of interest rates, foreign exchange rates and secondary loans. These trading activities are conducted through our two banking subsidiaries, CBNA and CBPA.

Client facilitation activities consist primarily of interest rate derivatives and foreign exchange contracts where we enter into offsetting trades with a separate counterparty or exchange to manage our exposure to the customer. Historically, the majority of these offsetting trades have been with RBS. We will occasionally execute hedges against the spread that exists across the client facing trade and its offset in the market to maintain a low risk profile. In 2014, we commenced a secondary loan trading desk with

121

---

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

the objective to meet secondary liquidity needs of our issuing clients' transactions and investor clients. We do not engage in any trading activities with the intent to benefit from short term price differences.

We record interest rate derivatives and foreign exchange contracts as derivative assets and liabilities on our Consolidated Balance Sheets. Trading assets and liabilities are carried at fair value with income earned related to these activities included in net interest income. Changes in fair value of trading assets and liabilities are reflected in other income, a component of noninterest income on the unaudited interim Consolidated Statements of Operations.

#### Market Risk Governance

Our market risk framework currently leverages RBS technology platform to aggregate, measure and monitor exposure against market risk limits. As part of our separation from RBS, we have entered into a Transitional Services Agreement pursuant to which RBS will continue to provide us with all necessary VaR and other risk measurements required for regulatory reporting related to interest rate derivatives and foreign exchange trading activities, as well as internal market risk reporting and general consultative services related to our market risk framework until the end of the Transitional Services Agreement. During the term of the Transitional Services Agreement, we intend to build out our own market risk organization and framework in order to gradually migrate away from reliance on services provided by RBS. As part of this process, we hired a head of market risk management to begin building out our stand-alone capabilities with respect to market risk management.

Given the low level of market risk, we have received the support of our U.S. banking regulators for relying on RBS' market risk technology platform. In managing our market risk, dealing authorities represent a key control in the management of market risk by setting the scope within which the business is permitted to operate. Dealing authorities are established jointly by designated senior business line and senior risk manager, and are reviewed at least annually. Dealing authorities are structured to accommodate the client facing trades, market offset trades and sets of hedges needed to maintain a low risk profile. Primary responsibility for keeping within established tolerances resides with the business. Key risk indicators, including a combined VaR for interest rate and foreign exchange rate risk, are monitored on a daily basis and reported against tolerances consistent with our risk appetite and business strategy to relevant business line management and risk counterparts.

#### Market Risk Measurement

We use VaR metrics, complemented with sensitivity analysis, market value and stress testing in measuring market risk. During the term of the Transition Services Agreement, we will continue to leverage RBS market risk measurement models for our foreign exchange and interest rate products, which are described further below, that capture correlation effects and allow for aggregation of market risk across risk types, business lines and legal entities. We measure and monitor market risk for both management and regulatory capital purposes.

#### Value-at-Risk Overview

RBS market risk measurement model is based on historical simulation. The VaR measure estimates the extent of any fair value losses on trading positions that may occur due to broad market movements (General VaR) such as changes in the level of interest rates, foreign exchange rates, equity prices and commodity prices. It is calculated on the basis that current positions remain broadly unaltered over the course of a given holding period. It is assumed that markets are sufficiently liquid to allow the business to close its positions, if required, within this holding period. VaR's benefit is that it captures the historic correlations of a portfolio. Based on the composition of our "covered positions," we also use a standardized add-on approach for the loan trading desk's Specific Risk capital which estimates the extent of any losses that may occur from factors other than broad market movements. In addition, for our secondary traded loans we calculate the VaR on the general interest rate risk embedded within the loans using a standalone model that replicates RBS general VaR methodology (the related capital is reflected on the "de minimis" line in the following section). RBS General VaR approach is expressed in terms of a confidence level over the past 500 trading days. The internal VaR measure (used as the basis of the main VaR trading limits) is a 99% confidence level with a one day holding period, meaning that a loss greater than the VaR is expected to occur, on average, on only one day in 100 trading days (i.e., 1% of the time). Theoretically, there should be a loss event greater than VaR two to three times per year. The regulatory measure of VaR is done at a 99% confidence level with a 10-day holding period. The historical market data applied to calculate the VaR is updated on a 10 business day lag. Refer to "Market Risk Regulatory Capital"



below for details of our 10-day VaR metrics for the quarters ended June 30, 2015 and 2014, including high, low, average and period end Value-at-Risk for interest rate and foreign exchange rate risks, as well as total VaR. We began measuring the high, low, and average Value-at-Risk for interest rate and foreign exchange currency rate risk during the fourth quarter of 2013, in conjunction with incorporating trade-level detail for foreign exchange risk in our market risk measurement models. Prior to that time, VaR for foreign exchange exposure was calculated using a manual process that did not capture potential interest rate risk from any forward transactions.

122

---

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Market Risk Regulatory Capital

Effective January 1, 2013, the U.S. banking regulators adopted "Risk-Based Capital Guidelines: Market Risk" as the regulations covering the calculation of market risk capital (the "Market Risk Rule"). The Market Risk Rule, commonly known as Basel 2.5, substantially modified the determination of market risk-weighted assets and implemented a more risk sensitive methodology for the risk inherent in certain trading positions categorized as "covered positions." For the purposes of the market risk rule, all of our client facing trades, market offset trades and sets of hedges needed to maintain a low risk profile to qualify as "covered positions." The internal VaR measure is calculated based on the same population of trades that is utilized for regulatory VaR. The following table shows the results of our modeled and non-modeled measures for regulatory capital calculations:

(in millions)	For the Quarter Ended June 30, 2015				For the Quarter Ended June 30, 2014			
	Period End	Average	High	Low	Period End	Average	High	Low
Market Risk Category								
Interest Rate	\$—	\$—	\$—	\$—	\$—	\$—	\$1	\$—
Foreign Exchange Currency Rate	—	—	2	—	—	—	1	—
Diversification Benefit	—	—	NM <sup>(1)</sup>	NM <sup>(1)</sup>	—	—	NM <sup>(1)</sup>	NM <sup>(1)</sup>
General VaR	—	—	2	—	—	—	1	—
Specific Risk VaR	—	—	—	—	—	—	—	—
Total VaR	\$—	\$—	\$2	\$—	\$—	\$—	\$1	\$—
Stressed General VaR	\$2	\$2	\$4	\$2	\$—	\$—	\$4	\$2
Stressed Specific Risk VaR	—	—	—	—	—	—	—	—
Total Stressed VaR	\$2	\$2	\$4	\$2	\$2	\$2	\$4	\$2
CFG Market Risk Regulatory Capital	\$8				\$9			
CFG Specific Risk Not Modeled Add-on	5				—			
CFG de Minimis Exposure Add-on	10							
CFG Total Market Risk Regulatory Capital	\$23				\$9			
CFG Market Risk-Weighted Assets	\$289				\$113			

<sup>(1)</sup> The high and low for the portfolio may have occurred on different trading days than the high and low for the components. Therefore, there is no diversification benefit shown for the high and low columns.

Stress VaR

SVaR is an extension of VaR, but uses a longer historical look back horizon that is fixed from January 1, 2005. This is done not only to identify headline risks from more volatile periods, but also to provide a counter balance to VaR which may be low during periods of low volatility. The holding period for profit and loss determination is 10 days. SVaR is also a component of market risk regulatory capital. SVaR for us is calculated under its own dynamic window regime as compared to RBS' static SVaR window. In a dynamic window regime, values of the 10-day, 99% VaR are calculated over all possible 260-day periods that can be obtained from the complete historical data set. Refer to "Market Risk Regulatory Capital" above for details of SVaR metrics, including high, low, average and period end SVaR for the combined portfolio. We began measuring the high, low, and average SVaR for our combined portfolio during the fourth quarter of 2013 in conjunction with the incorporation of trade-level detail for foreign exchange risk, in our market risk measurement models. Prior to that time, our SVaR measure did not include foreign exchange risk given low levels of materiality.

Sensitivity Analysis

Sensitivity analysis is the measure of exposure to a single risk factor, such as a one basis point change in rates or credit spread. We conduct and monitor sensitivity on interest rates, basis spreads, foreign exchange exposures and option prices. Whereas VaR is based on previous moves in market risk factors over recent periods, it may not be an accurate predictor of future market moves. Sensitivity analysis complements VaR as it provides an indication of risk

relative to each factor irrespective of historical market moves and is an effective tool in evaluating the appropriateness of hedging strategies.

Stress Testing

Conducting a stress test of a portfolio consists of running risk models with the inclusion of key variables that simulate various historical or hypothetical scenarios. For historical stress tests, profit and loss results are simulated for selected time periods corresponding to the most volatile underlying returns while hypothetical stress tests aim to consider concentration risk, illiquidity

CITIZENS FINANCIAL GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS

under stressed market conditions and risk arising from the bank's trading activities that may not be fully captured by its other models. Hypothetical scenarios also assume that the market moves happen simultaneously and that no repositioning or hedging activity takes place to mitigate losses as events unfold. We generate stress tests of our trading positions on a regular basis. For example, we currently include a stress test that simulates a Lehman-type crisis scenario by taking the worst, 10-day peak to trough moves for the various risk factors that go into VaR from that period, and assuming they occurred simultaneously.

**VaR Model Review and Validation**

Market risk measurement models used are independently reviewed. RBS models, used under the Transitional Services Agreement, are subject to ongoing and independent review and validation that focuses on the model methodology. Independent review of market risk measurement models is the responsibility of RBS Risk Analytics. Aspects covered include challenging the assumptions used, the quantitative techniques employed and the theoretical justification underpinning them, and an assessment of the soundness of the required data over time. Where possible, the quantitative impact of the major underlying modeling assumptions will be estimated (e.g., through developing alternative models). Results of such reviews are shared with U.S. regulators. For the term of the Transitional Services Agreement, we and RBS expect to utilize the same independently validated VaR model for both management and regulatory reporting purposes. RBS market risk teams, including those providing consultative services to us under the Transitional Services Agreement, will conduct internal validation before a new or changed model element is implemented and before a change is made to a market data mapping. For example, RBS market risk teams also perform regular reviews of key risk factors that are used in the market risk measurement models to produce profit and loss vectors used in the VaR calculations. These internal validations are subject to independent re-validation by Group Risk Analytics and, depending on the results of the impact assessment, notification to the appropriate regulatory authorities for RBS and us may be required.

**VaR Backtesting**

Backtesting is one form of validation of the VaR model. The Market Risk Rule requires a comparison of our internal VaR measure to the actual net trading revenue (excluding fees, commissions, reserves, intra-day trading and net interest income) for each day over the preceding year (the most recent 250 business days). Any observed loss in excess of the VaR number is taken as an exception. The level of exceptions determines the multiplication factor used to derive the VaR and SVaR-based capital requirement for regulatory reporting purposes. We perform sub-portfolio backtesting as required under the Market Risk Rule, and as approved by our banking regulators, for interest rate and foreign exchange positions. The following table shows our daily net trading revenue and total internal, modeled VaR for the quarters ending June 30, 2015, March 31, 2015, December 31, 2014, and September 30, 2014. We continue to utilize a multiplication factor derived from RBS backtesting results, as agreed with our banking regulators.

Daily VaR Backtesting: Sub-portfolio Level Backtesting

CITIZENS FINANCIAL GROUP, INC.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information presented in the “Market Risk” section of Part I, Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

### ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. The design of any disclosure controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. In accordance with Rule 13a-15(b) of the Exchange Act, as of the end of the period covered by this quarterly report, an evaluation was carried out under the supervision and with the participation of the Company’s management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures, as of the end of the period covered by this quarterly report, were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to the Company’s management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this quarterly report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## CITIZENS FINANCIAL GROUP, INC.

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

In addition to the matters described in the Company's Form 10-K for the year ended December 31, 2014, information required by this item is set forth in Note 13 "Commitments and Contingencies" in the Notes to the unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements of this report, which is incorporated herein by reference.

## ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should consider the risks described under the caption "Risk Factors" in the Company's Form 10-K for the year ended December 31, 2014.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On August 3, 2015, the Company used the net proceeds of its public offering of \$250 million aggregate principal amount 4.350% Subordinated Notes due 2025 issued on July 31, 2015, to repurchase 9,615,384 shares of its outstanding common stock directly from RBS.

On April 6, 2015, the Company issued 250,000 shares of 5.500% fixed-to-floating rate non-cumulative perpetual Series A Preferred Stock with a liquidation preference \$1,000 per share (the "Preferred Stock") to Morgan Stanley & Co. LLC, RBS Securities Inc., J.P. Morgan Securities LLC and Goldman Sachs & Co. (collectively, the "Initial Purchasers") for an aggregate offering price of \$250 million and net proceeds of \$247 million. The Series A Preferred Stock was sold to the Initial Purchasers in reliance on the exemption from the registration requirements provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to non-U.S. persons pursuant to Regulation S under the Securities Act. On April 7, 2015, the Company used the net proceeds of the Preferred Stock offering to repurchase 10,473,397 shares of its common stock directly from RBS.

The following table summarizes the Company's repurchases of common stock described above:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased As Part of Publicly Announced Plans or Programs
August 3, 2015	9,615,384	\$26.00	Not Applicable	Not Applicable
April 7, 2015	10,473,397	\$23.87	Not Applicable	Not Applicable

See Note 9 "Stockholders' Equity" and Note 23 "Subsequent Events" in the Notes to the unaudited interim Consolidated Financial Statements in Part I, Item 1-Financial Statements of this report for further information.

## ITEM 6. EXHIBITS

3.1

Amended and Restated Certificate of Incorporation of the Registrant as in effect on the date hereof (incorporated herein by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q, filed May 8, 2015)

Citizens Financial Group, Inc. Non-Employee Directors Compensation Policy, as originally adopted as of September 29, 2014 and amended on June 25, 2015 (incorporated herein by reference to Exhibit 10.14 of the Registration Statement on Form S-1, filed July 21, 2015)†

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*

CITIZENS FINANCIAL GROUP, INC.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*

The following materials from the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2015, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, 101 (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements\*

† Indicates management contract or compensatory plan or arrangement.

\* Filed herewith.

127

---



CITIZENS FINANCIAL GROUP, INC.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 7, 2015.

CITIZENS FINANCIAL GROUP, INC.

(Registrant)

By: /s/ Ronald S. Ohsberg  
Name: Ronald S. Ohsberg  
Title: Executive Vice President & Controller  
(Principal Accounting Officer and Authorized Officer)