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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
[X] 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	05-0412693
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

One Citizens Plaza, Providence, RI 02903
(Address of principal executive offices, including zip code)

(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.
[X] 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).
[X] 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) [X] Smaller reporting company [ ]

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

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

Table of Contents

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

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data)	June 30, 2015	December 31, 2014
ASSETS:		
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
TOTAL ASSETS	$137,251	$132,857
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
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
TOTAL LIABILITIES	$117,665	$113,589
Contingencies (refer to Note 13)		
STOCKHOLDERS' EQUITY:		
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	6
Additional paid-in capital	18,714	18,676
Retained earnings	1,585	1,294

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 June 30, 2015	2014	Six Months Ended June 30, 2015	2014
INTEREST INCOME:				
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
INTEREST EXPENSE:				
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
NONINTEREST INCOME:				
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
NONINTEREST EXPENSE:				
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

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	559,998,324	541,986,653	559,998,324
Diluted	539,909,366	559,998,324	544,804,268	559,998,324
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)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	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)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Total
(in millions)	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
OPERATING ACTIVITIES		
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
INVESTING ACTIVITIES		
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)
FINANCING ACTIVITIES		

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:

	June 30, 2015				December 31, 2014			
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale								
U.S. Treasury	$30	$—	$—	$30	$15	$—	$—	$15
State and political subdivisions	9	—	—	9	10	—	—	10
Mortgage-backed securities:								
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
Securities Held to Maturity								
Mortgage-backed securities:								
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
Other Investment Securities								
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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	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:

	June 30, 2015								
	Less than 12 Months			12 Months or Longer			Total		
(dollars in millions)	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)

	December 31, 2014								
	Less than 12 Months			12 Months or Longer			Total		
(dollars in millions)	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.

12

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2015	2014	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.

	Distribution of Maturities				
(in millions)	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	Total
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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	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:

	June 30, 2015		December 31, 2014	
(in millions)	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:

	June 30, 2015			December 31, 2014		
(in millions)	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:

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

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 [1]	1,126	1,228
Home equity lines of credit serviced by others [1]	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 [2] [3]	$96,538	$93,410

[1] 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.
[2] 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.
[3] 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:

	Six Months Ended June 30, 2015		
(in millions)	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

	Six Months Ended June 30, 2014		
(in millions)	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:

	June 30, 2015			December 31, 2014		
(in millions)	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

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

	June 30, 2015			December 31, 2014		
(in millions)	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:

	June 30, 2015				
		Criticized			
(in millions)	Pass	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

	December 31, 2014				
		Criticized			
(in millions)	Pass	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:

	June 30, 2015				
(in millions)	Current	1-29 Days Past Due	30-89 Days Past Due	90 Days or More Past Due	Total
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 [1]	1,027	58	20	21	1,126
Home equity lines of credit serviced by others [1]	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

[1] 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)	Current	1-29 Days Past Due	30-89 Days Past Due	90 Days or More Past Due	Total
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 [1]	1,101	78	26	23	1,228
Home equity lines of credit serviced by others [1]	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

[1] 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:

	June 30, 2015			December 31, 2014		
(in millions)	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	42	—	42	50	—	50
Leases	—	—	—	—	—	—
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 [1]	44	—	44	47	—	47
Home equity lines of credit serviced by others [1]	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

[1] 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):

	June 30, 2015			December 31, 2014		
(in millions)	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 (1)	20	21	41	26	23	49
Home equity lines of credit serviced by others (1)	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

(1) 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.

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 (1)	57	9	27	96	84
Home equity lines of credit serviced by others (1)	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

(1) 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 (1)	75	9	16	102	91
Home equity lines of credit serviced by others (1)	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

[1] 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:

	Three Months Ended June 30,			
	2015		2014	
(in millions)	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 (1)	1	84	2	101
Home equity lines of credit serviced by others (1)	—	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

(1) 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.

	Six Months Ended June 30,			
	2015		2014	
(in millions)	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 (1)	2	84	3	100
Home equity lines of credit serviced by others (1)	—	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

(1) 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.

23

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.

	Primary Modification Types					
	Interest Rate Reduction [1]			Maturity Extension [2]		
(dollars in millions)	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 [3]	5	—	—	—	—	—
Home equity lines of credit serviced by others [3]	—	—	—	—	—	—
Automobile	18	1	1	1	—	—
Student	—	—	—	—	—	—
Credit cards	630	3	3	—	—	—

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

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Primary Modification Types				
	Other [4]				
(dollars in millions)	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	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 [3]	25	1	1	—	—
Home equity lines of credit serviced by others [3]	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

[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.

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.

	Primary Modification Types					
	Interest Rate Reduction [1]			Maturity Extension [2]		
(dollars in millions)	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	—

Home equity lines of credit	1	—	—	106	7	6
Home equity loans serviced by others [3]	4	—	—	—	—	—
Home equity lines of credit serviced by others[3]	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

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Primary Modification Types				
	Other [4]				
(dollars in millions)	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	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 [3]	46	3	2	—	—
Home equity lines of credit serviced by others [3]	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

[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.

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.

	Primary Modification Types					
	Interest Rate Reduction [1]			Maturity Extension [2]		
(dollars in millions)	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

Home equity lines of credit	—	—	—	3	—	—
Home equity loans serviced by others (3)	22	1	1	—	—	—
Home equity lines of credit serviced by others (3)	—	—	—	—	—	—
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

	Primary Modification Types Other [4]				
(dollars in millions)	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	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 [3]	71	3	3	—	1
Home equity lines of credit serviced by others [3]	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

[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 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.

	Primary Modification Types					
	Interest Rate Reduction [1]			Maturity Extension [2]		
(dollars in millions)	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 [3]	18	1	1	—	—	—
Home equity lines of credit serviced by others [3]	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

	Primary Modification Types				
	Other [4]				
(dollars in millions)	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 [3]	85	3	3	—	—
Home equity lines of credit serviced by others [3]	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.

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.

	Three Months Ended June 30,			
	2015		2014	
(dollars in millions)	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 [1]	7	—	18	1
Home equity lines of credit serviced by others [1]	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

[1] 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.

	Six Months Ended June 30,			
	2015		2014	
(dollars in millions)	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 [1]	23	1	34	1
Home equity lines of credit serviced by others [1]	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

[1] 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:

	June 30, 2015				
(in millions)	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	—	—	—	