

CITIZENS FINANCIAL GROUP INC/RI

Form 10-Q

November 03, 2017

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

September 30, 2017

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

(Exact name of the registrant as specified in its charter)

Delaware 05-0412693

(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) 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.

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, a smaller reporting company or an emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 491,991,403 shares of Registrant's common stock (\$0.01 par value) outstanding on November 1, 2017.

Table of Contents

<u>Glossary of Acronyms and Terms</u>	3
<u>Part I. Financial Information</u>	5
<u>Item 1. Financial Statements</u>	66
<u>Consolidated Balance Sheets as of September 30, 2017 (unaudited) and December 31, 2016 (unaudited)</u>	67
<u>Consolidated Statements of Operations (unaudited) for the Three and Nine Months Ended September 30, 2017 and 2016</u>	68
<u>Consolidated Statements of Comprehensive Income (unaudited) for the Three and Nine Months Ended September 30, 2017 and 2016</u>	69
<u>Consolidated Statements of Changes in Stockholders' Equity (unaudited) for the Nine Months Ended September 30, 2017 and 2016</u>	70
<u>Consolidated Statements of Cash Flows (unaudited)</u>	71

<u>for the Nine Months Ended September 30, 2017 and 2016 Notes to the Consolidated Financial Statements (unaudited)</u>	<u>72</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>5</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>121</u>
<u>Item 4. Controls and Procedures</u>	<u>121</u>
<u>Part II. Other Information</u>	<u>122</u>
<u>Item 1. Legal Proceedings</u>	<u>122</u>
<u>Item 1A. Risk Factors</u>	<u>122</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>122</u>
<u>Item 6. Exhibits</u>	<u>122</u>
<u>Signature</u>	<u>124</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 (Loss)
ATM	Automated Teller Machine
Board of Directors	The Board of Directors of Citizens Financial Group, Inc.
bps	Basis Points
C&I	Commercial and Industrial
Capital Plan Rule	Federal Reserve's Regulation Y Capital Plan Rule
CBNA	Citizens Bank, National Association
CBPA	Citizens Bank of Pennsylvania
CCAR	Comprehensive Capital Analysis and Review
CCB	Capital Conservation Buffer
CET1	Common Equity Tier 1
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
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
Exchange Act	The Securities Exchange Act of 1934
Fannie Mae (FNMA)	Federal National Mortgage Association
FASB	Financial Accounting Standards Board
FDIA	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation (credit rating)
FRB	Federal Reserve Board of Governors and, as applicable, Federal Reserve Bank(s)
FTP	Funds Transfer Pricing
GAAP	Accounting Principles Generally Accepted in the United States of America
Ginnie Mae (GNMA)	Government National Mortgage Association
HELOC	Home Equity Line of Credit
HTM	Held To Maturity
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
Mid-Atlantic	District of Columbia, Delaware, Maryland, New Jersey, New York, Pennsylvania, Virginia, and West Virginia
Midwest	Illinois, Indiana, Michigan, and Ohio
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations

MSR
New England

Mortgage Servicing Right
Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont

3

CITIZENS FINANCIAL GROUP, INC.

NM	Not meaningful
NSFR	Net Stable Funding Ratio
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income (Loss)
Parent Company	Citizens Financial Group, Inc. (the Parent Company of Citizens Bank of Pennsylvania, Citizens Bank, National Association and other subsidiaries)
PD	Probability of Default
ROTCE	Return on Average Tangible Common Equity
RPA	Risk Participation Agreement
SBO	Serviced by Others loan portfolio
SEC	United States Securities and Exchange Commission
SVaR	Stressed Value at Risk
TDR	Troubled Debt Restructuring
TOP	Tapping Our Potential
VaR	Value at Risk
VIE	Variable Interest Entities

CITIZENS FINANCIAL GROUP, INC.

PART I. FINANCIAL INFORMATION

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

	Page
Forward-Looking Statements	<u>6</u>
<u>Introduction</u>	<u>7</u>
<u>Financial Performance</u>	<u>8</u>
Selected Consolidated Financial Data	<u>10</u>
<u>Principal Components of Operations and Key Performance Metrics Used By Management</u>	<u>12</u>
Results of Operations	<u>21</u>
<u>Third Quarter 2017 vs. Third Quarter 2016</u>	<u>21</u>
<u>Nine Months Ended 2017 vs. Nine Months Ended 2016</u>	<u>22</u>
<u>Net Income</u>	<u>24</u>
<u>Net Interest Income</u>	<u>24</u>
<u>Noninterest Income</u>	<u>28</u>
<u>Provision for Credit Losses</u>	<u>29</u>
<u>Noninterest Expense</u>	<u>29</u>
<u>Income Tax Expense</u>	<u>30</u>
<u>Business Segments</u>	<u>31</u>
Analysis of Financial Condition	<u>38</u>
<u>Securities</u>	<u>38</u>
<u>Loans and Leases</u>	<u>39</u>
<u>Non-Core Assets</u>	<u>40</u>
<u>Allowance for Credit Losses and Nonperforming Assets</u>	<u>40</u>
<u>Derivatives</u>	<u>44</u>
<u>Deposits</u>	<u>45</u>
<u>Borrowed Funds</u>	<u>46</u>
<u>Capital and Regulatory Matters</u>	<u>48</u>
<u>Liquidity</u>	<u>53</u>
<u>Off-Balance Sheet Arrangements</u>	<u>57</u>
<u>Critical Accounting Estimates</u>	<u>57</u>
<u>Risk Governance</u>	<u>57</u>
<u>Market Risk</u>	<u>60</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. Statements regarding potential future share repurchases and future dividends are forward-looking statements. Also, 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,” “potential,” “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 and business restrictions resulting from litigation and regulatory investigations;
- Our capital and liquidity requirements (including under regulatory capital standards, such as the U.S. Basel III capital rules) and our ability to generate capital internally or raise capital on favorable terms;
- The effect of 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; and
- Management’s ability to identify and manage these and other risks.

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 amount of any such dividends.

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, 2016.

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

INTRODUCTION

Citizens Financial Group, Inc. is one of the nation's oldest and largest financial institutions with \$151.4 billion in assets as of September 30, 2017. Our mission is to help our customers, colleagues and communities reach their potential. Headquartered in Providence, Rhode Island, we offer a broad range of retail and commercial banking products and services to individuals, small businesses, middle-market companies, large corporations and institutions. We help our customers reach their potential by listening to them and by understanding their needs in order to offer tailored advice, ideas and solutions. In Consumer Banking, we provide an integrated experience that includes mobile and online banking, a 24/7 customer contact center and the convenience of approximately 3,200 ATMs and approximately 1,200 branches in 11 states in the New England, Mid-Atlantic and Midwest regions. Consumer Banking products and services include a full range of banking, lending, savings, wealth management and small business offerings. In Commercial Banking, we offer corporate, institutional and not-for-profit clients a full range of wholesale banking products and services including lending and deposits, capital markets, treasury services, foreign exchange and interest rate products, and asset finance. More information is available at www.citizensbank.com. The following MD&A is intended to assist readers in their analysis of the accompanying interim Consolidated Financial Statements and supplemental financial information. It should be read in conjunction with the interim Consolidated Financial Statements and Notes to the Consolidated Financial Statements in Item 1 of this Form 10-Q, as well as other information contained in this document and our 2016 Annual Report on Form 10-K.

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

FINANCIAL PERFORMANCE

Third Quarter 2017 compared with Third Quarter 2016 - Key Highlights

Third quarter 2017 net income of \$348 million increased 17% from \$297 million in third quarter 2016, with earnings per diluted common share of \$0.68, up 21% from \$0.56 per diluted common share. Third quarter 2017 ROTCE of 10.1% improved from 8.6%.*

On an Adjusted basis,* third quarter 2017 net income increased 25% and earnings per diluted common share increased 31% compared to third quarter 2016. Adjusted results exclude the impact of a third quarter 2016 net \$19 million after-tax benefit from the sale of a troubled debt restructuring portfolio ("TDR Transaction"), partially offset by other notable items largely associated with our efficiency and balance sheet optimization initiatives.

Third quarter 2017 results reflect an 18% increase in net income available to common stockholders, led by revenue growth of 5%, with a 12% increase in net interest income given 5% average loan growth and a 21 basis point increase in net interest margin.

On an Adjusted basis,* net income available to common stockholders increased 26%.

Continued strong focus on top-line growth and expense management helped drive positive operating leverage of 6%, a 3.5% improvement in the efficiency ratio and a 1.6% improvement in ROTCE.*

On an Adjusted basis,* operating leverage was 7% with an efficiency ratio improvement of 3.9% and a ROTCE improvement of 2.1%.

Fully diluted average common shares outstanding decreased by 19 million shares.

Nine Months Ended 2017 compared with Nine Months Ended 2016 - Key Highlights

For the first nine months of 2017, net income of \$986 million, increased 29% from \$763 million in the first nine months of 2016, with earnings per diluted common share of \$1.92, up 35% from \$1.42 per diluted common share in the first nine months of 2016. Our first nine months of 2017 results include a \$23 million benefit, or \$0.05 per diluted common share, related to the settlement of certain state tax matters. For the first nine months of 2017, ROTCE of 9.8% improved from 7.5% in the first nine months of 2016.*

On an Underlying basis,* excluding a \$23 million benefit related to the settlement of certain state tax matters, net income of \$963 million was up 26%, earnings per diluted common share of \$1.87 was up 32%, and ROTCE of 9.6% improved by 206 basis points.

On an Adjusted basis,* excluding the third quarter 2016 net \$19 million after-tax benefit related to the TDR Transaction, partially offset by other notable items, net income of \$986 million was up 33%, earnings per diluted common share of \$1.92 was up 38%, and ROTCE of 9.8% improved by 248 basis points.

Results for the first nine months of 2017 reflected a 30% increase in net income available to common stockholders, led by revenue growth of 9%, as net interest income increased 12%, given a 6% average loan growth and a 15 basis point increase in net interest margin, as well as noninterest income growth of 1%.

Results for the first nine months of 2017 included a \$26 million pre-tax impact related to impairments on aircraft lease assets, which largely related to a non-core runoff portfolio, and reduced noninterest income by \$11 million and increased noninterest expense by \$15 million. The lease impairments, in addition to provision expense of \$238 million, resulted in total credit-related costs of \$264 million.*

Continued strong focus on top-line growth and expense management helped drive positive operating leverage of 6%, a 3.4% improvement in the efficiency ratio from 64.4% to 61.0%, and a 2.3% improvement in ROTCE.*

Before the impact of the lease impairments, Underlying* operating leverage was 7% and the efficiency ratio improved 3.9% from 64.4% to 60.5%.

On an Adjusted basis,* the efficiency ratio improved from 64.5% to 61.0%.

For the first nine months of 2017, the tax rate reflected a 1.8% benefit driven by the settlement of certain state tax matters and investments in historic tax credits.

On an Underlying basis,* the effective income tax rate decreased from 31.9% to 31.7%.

Fully diluted average common shares outstanding decreased by 20 million shares.

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

Summary of Notable and Underlying Items⁽¹⁾

(in millions)	Three Months Ended September 30, 2016				
	Noninterest income	Noninterest expense	Credit-related costs	Income tax expense	Net Income
Reported results (GAAP)	\$435	\$867	\$86	\$130	\$297
Less: notable items					
Gain on mortgage/home equity TDR transaction	72	—	—	27	45
Home equity operational items	—	8	—	(3)	(5)
Asset Finance repositioning	(5)	11	—	(6)	(10)
TOP III efficiency initiatives	—	17	—	(6)	(11)
Total notable items	\$67	\$36	\$—	\$12	\$19
Adjusted results (Non-GAAP)	\$368	\$831	\$86	\$118	\$278
	Nine Months Ended September 30, 2017				
(in millions)	Noninterest income	Noninterest expense	Credit-related costs	Income tax expense	Net Income
Reported results (GAAP)	\$1,130	\$2,576	\$238	\$423	\$986
Less: Underlying items					
Lease impairment credit-related costs	(11)	15	(26)	—	—
Settlement of certain tax matters	—	—	—	(23)	23
Total Underlying items	(\$11)	\$15	(\$26)	(\$23)	\$23
Underlying results (Non-GAAP)	\$1,141	\$2,561	\$264	\$446	\$963
	Nine Months Ended September 30, 2016				
(in millions)	Noninterest income	Noninterest expense	Credit-related costs	Income tax expense	Net Income
Reported results (GAAP)	\$1,120	\$2,505	\$267	\$357	\$763
Less: notable items					
Gain on mortgage/home equity TDR transaction	72	—	—	27	45
Home equity operational items	—	8	—	(3)	(5)
Asset Finance repositioning	(5)	11	—	(6)	(10)
TOP III efficiency initiatives	—	17	—	(6)	(11)
Total notable items	\$67	\$36	\$—	\$12	\$19
Adjusted results (Non-GAAP)	\$1,053	\$2,469	\$267	\$345	\$744

⁽¹⁾ There were no notable or Underlying items for the three months ended September 2017.

“Adjusted” results exclude restructuring charges, special items and/or notable items; “Underlying” results, as applicable, exclude a first quarter 2017 \$23 million benefit related to the settlement of certain state tax matters and reclassify second quarter 2017 results for the pre-tax impact of \$26 million of lease asset impairments to reflect their *credit-related impact. Where there is a reference to “Adjusted” and/or “Underlying” results in a paragraph, all measures that follow these references are on the same basis when applicable. For more information on the computation of key performance metrics and non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics Used by Management — Key Performance Metrics and Non-GAAP Financial Measures.”

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

SELECTED CONSOLIDATED FINANCIAL DATA

The summary Consolidated Operating Data for the three and nine months ended September 30, 2017 and 2016 and the summary Consolidated Balance Sheet data as of September 30, 2017 and December 31, 2016 are derived from our unaudited interim Consolidated Financial Statements included in Part I, Item 1 — Financial Statements of this report. Our historical results are not necessarily indicative of the results expected for any future period.

Our 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 nine months ended September 30, 2017 are not necessarily indicative of those to be expected for the year ending December 31, 2017 or for any future period. The following selected consolidated financial data should be read in conjunction with our unaudited interim Consolidated Financial Statements and the Notes thereto.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions, except per-share amounts)	2017	2016	2017	2016
OPERATING DATA:				
Net interest income	\$1,062	\$945	\$3,093	\$2,772
Noninterest income	381	435	1,130	1,120
Total revenue	1,443	1,380	4,223	3,892
Provision for credit losses	72	86	238	267
Noninterest expense	858	867	2,576	2,505
Income before income tax expense	513	427	1,409	1,120
Income tax expense	165	130	423	357
Net income	\$348	\$297	\$986	\$763
Net income available to common stockholders	\$341	\$290	\$972	\$749
Net income per common share - basic	\$0.68	\$0.56	\$1.92	\$1.43
Net income per common share - diluted	\$0.68	\$0.56	\$1.92	\$1.42
OTHER OPERATING DATA:				
Return on average common equity ⁽¹⁾	6.87	% 5.82	% 6.63	% 5.08
Return on average tangible common equity ⁽¹⁾	10.13	8.58	9.80	7.51
Return on average total assets ⁽¹⁾	0.92	0.82	0.88	0.72
Return on average total tangible assets ⁽¹⁾	0.96	0.86	0.92	0.75
Efficiency ratio ⁽¹⁾	59.41	62.88	60.99	64.36
Operating leverage ^{(1) (2)}	5.61	5.49	5.67	6.06
Net interest margin ⁽¹⁾	3.05	2.84	3.00	2.85
Effective income tax rate	32.18	30.46	30.04	31.87

⁽¹⁾ See “—Principal Components of Operations and Key Performance Metrics Used By Management” for definitions of our key performance metrics.

⁽²⁾ “Operating leverage” represents the period-over-period percent change in total revenue, less the period-over-period percent change in noninterest expense. For the purpose of the 2016 calculation, total revenue was \$1.2 billion and \$3.6 billion for the three and nine months ended September 30, 2015, respectively, and noninterest expense was \$798 million and \$2.4 billion for the three and nine months ended September 30, 2015, respectively.

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

(dollars in millions)	September 30, 2017	December 31, 2016		
BALANCE SHEET DATA:				
Total assets	\$151,356	\$149,520		
Loans held for sale, at fair value	500	583		
Other loans held for sale	724	42		
Loans and leases	110,151	107,669		
Allowance for loan and lease losses	(1,224)	(1,236)		
Total securities	25,742	25,610		
Goodwill	6,887	6,876		
Total liabilities	131,247	129,773		
Total deposits	113,235	109,804		
Federal funds purchased and securities sold under agreements to repurchase	453	1,148		
Other short-term borrowed funds	1,505	3,211		
Long-term borrowed funds	13,400	12,790		
Total stockholders' equity	20,109	19,747		
OTHER BALANCE SHEET DATA:				
Asset Quality Ratios:				
Allowance for loan and lease losses as a percentage of total loans and leases	1.11	%	1.15	%
Allowance for loan and lease losses as a percentage of nonperforming loans and leases	131.35		118.32	
Nonperforming loans and leases as a percentage of total loans and leases	0.85		0.97	
Capital Ratios:⁽³⁾				
CET1 capital ratio ⁽⁴⁾	11.1	%	11.2	%
Tier 1 capital ratio ⁽⁵⁾	11.3		11.4	
Total capital ratio ⁽⁶⁾	13.8		14.0	
Tier 1 leverage ratio ⁽⁷⁾	9.9		9.9	

⁽³⁾ U.S. 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 September 30, 2017 and December 31, 2016 are prepared using the U.S. Basel III Standardized transitional approach.

⁽⁴⁾ "Common equity tier 1 capital ratio" represents CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

⁽⁵⁾ "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 U.S. Basel III Standardized approach.

⁽⁶⁾ "Total capital ratio" is total capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

⁽⁷⁾ "Tier 1 leverage ratio" is tier 1 capital divided by quarterly average total assets as defined under U.S. Basel III Standardized approach.

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 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, net income and net income available to common stockholders. 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.

In first quarter 2017, certain prior period noninterest income amounts reported in the Consolidated Statement of Operations were reclassified to enhance transparency and provide additional granularity, particularly with regard to fee income related to customer activity. Additionally, student loans were renamed "education" loans to more closely align with the full range of services offered to borrowers, from loan origination to refinancing. These changes had no effect on net income, total comprehensive income, total assets or total stockholders' equity as previously reported.

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 annualized net income available to common stockholders divided by average common equity;

Return on average tangible common equity, which we define as annualized net income available to common stockholders 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 annualized net income divided by average total assets;

Return on average total tangible assets, which we define as annualized 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;

Operating leverage, which we define as the percent change in total revenue, less the percent change in noninterest expense;

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; and

Common equity tier 1 capital ratio (U.S. Basel III Standardized fully phased-in basis), represents CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

"Adjusted" or "Underlying" results, which are non-GAAP measures, exclude certain items, as applicable, that may occur in a reporting period which management does not consider indicative of on-going financial performance.

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 our "Adjusted" or "Underlying" results in any period reflect our operational performance in that period and, accordingly, it is useful to consider our GAAP results and our "Adjusted" or "Underlying" results together. We believe this presentation also increases comparability of period-to-period results.

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 financial measures have

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

limitations as analytical tools, and should not be considered in isolation, or as a substitute for our results as reported under GAAP.

Non-GAAP measures are denoted throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" by the use of the term "Adjusted" or "Underlying" and/or are followed by an asterisk (*).

The following table presents computations of key performance metrics used throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations":

(in millions, except ratio data)	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,		
	Ref. 2017	2016	2017	2016	
Total revenue (GAAP)	A \$1,443	\$1,380	\$4,223	\$3,892	
Noninterest expense (GAAP)	B 858	867	2,576	2,505	
Net income (GAAP)	C 348	297	986	763	
Net income available to common stockholders (GAAP)	D 341	290	972	749	
Return on average common equity:					
Average common equity (GAAP)	E \$19,728	\$19,810	\$19,617	\$19,715	
Return on average common equity	D/E 6.87	% 5.82	% 6.63	% 5.08	%
Return on average tangible common equity:					
Average common equity (GAAP)	E \$19,728	\$19,810	\$19,617	\$19,715	
Less: Average goodwill (GAAP)	6,887	6,876	6,882	6,876	
Less: Average other intangibles (GAAP)	2	1	2	2	
Add: Average deferred tax liabilities related to goodwill (GAAP)	537	509	535	495	
Average tangible common equity	F \$13,376	\$13,442	\$13,268	\$13,332	
Return on average tangible common equity	D/F 10.13	% 8.58	% 9.80	% 7.51	%
Return on average total assets:					
Average total assets (GAAP)	G \$150,012	\$144,399	\$149,563	\$141,795	
Return on average total assets	C/G 0.92	% 0.82	% 0.88	% 0.72	%
Return on average total tangible assets:					
Average total assets (GAAP)	G \$150,012	\$144,399	\$149,563	\$141,795	
Less: Average goodwill (GAAP)	6,887	6,876	6,882	6,876	
Less: Average other intangibles (GAAP)	2	1	2	2	
Add: Average deferred tax liabilities related to goodwill (GAAP)	537	509	535	495	
Average tangible assets	H \$143,660	\$138,031	\$143,214	\$135,412	
Return on average total tangible assets	C/H 0.96	% 0.86	% 0.92	% 0.75	%
Efficiency ratio:					
Efficiency ratio	B/A 59.41	% 62.88	% 60.99	% 64.36	%
Operating leverage:					
Increase in total revenue	4.57	% 14.14	% 8.50	% 8.35	%
(Decrease) increase in noninterest expense	(1.04)	) 8.65	2.83	2.29	
Operating leverage	5.61	% 5.49	% 5.67	% 6.06	%

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

(in millions, except ratio data)	Ref.	As of and for the Three Months Ended September 30, 2017				2016				
		Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated	
Net income available to common stockholders:										
Net income (GAAP)	I	\$122	\$201	\$25	\$348	\$92	\$162	\$43	\$297	
Less: Preferred stock dividends		—	—	7	7	—	—	7	7	
Net income available to common stockholders	J	\$122	\$201	\$18	\$341	\$92	\$162	\$36	\$290	
Efficiency ratio:										
Total revenue (GAAP)	K	\$901	\$490	\$52	\$1,443	\$850	\$450	\$80	\$1,380	
Noninterest expense (GAAP)	L	648	195	15	858	650	181	36	867	
Efficiency ratio	L/K	71.88	% 39.39	% NM	59.41	% 76.46	% 40.21	% NM	62.88	%
Return on average total tangible assets:										
Average total assets (GAAP)		\$60,012	\$49,833	\$40,167	\$150,012	\$56,689	\$47,902	\$39,808	\$144,399	
Less: Average goodwill (GAAP)		—	—	6,887	6,887	—	—	6,876	6,876	
Less: Average other intangibles (GAAP)		—	—	2	2	—	—	1	1	
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	537	537	—	—	509	509	
Average total tangible assets	M	\$60,012	\$49,833	\$33,815	\$143,660	\$56,689	\$47,902	\$33,440	\$138,031	
Return on average total tangible assets	I/M	0.81	% 1.60	% NM	0.96	% 0.64	% 1.35	% NM	0.86	%
Return on average tangible common equity:										
Average common equity (GAAP) ⁽¹⁾		\$5,565	\$5,685	\$8,478	\$19,728	\$5,190	\$5,172	\$9,448	\$19,810	
Less: Average goodwill (GAAP)		—	—	6,887	6,887	—	—	6,876	6,876	
Less: Average other intangibles (GAAP)		—	—	2	2	—	—	1	1	
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	537	537	—	—	509	509	
Average tangible common equity ⁽¹⁾	N	\$5,565	\$5,685	\$2,126	\$13,376	\$5,190	\$5,172	\$3,080	\$13,442	
Return on average tangible common equity ⁽¹⁾	J/N	8.72	% 14.06	% NM	10.13	% 7.04	% 12.50	% NM	8.58	%

(1) 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.

14

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

(in millions, except ratio data)	Ref.	As of and for the Nine Months Ended September 30, 2017				2016				
		Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated	
Net income available to common stockholders:										
Net income (GAAP)	I	\$335	\$568	\$83	\$986	\$253	\$459	\$51	\$763	
Less: Preferred stock dividends		—	—	14	14	—	—	14	14	
Net income available to common stockholders	J	\$335	\$568	\$69	\$972	\$253	\$459	\$37	\$749	
Efficiency ratio:										
Total revenue (GAAP)	K	\$2,645	\$1,444	\$134	\$4,223	\$2,460	\$1,285	\$147	\$3,892	
Noninterest expense (GAAP)	L	1,939	577	60	2,576	1,898	554	53	2,505	
Efficiency ratio	L/K	73.28	% 39.89	% NM	60.99	% 77.15	% 43.15	% NM	64.36	%
Return on average total tangible assets:										
Average total assets (GAAP)		\$59,310	\$49,604	\$40,649	\$149,563	\$55,825	\$46,869	\$39,101	\$141,795	
Less: Average goodwill (GAAP)		—	—	6,882	6,882	—	—	6,876	6,876	
Less: Average other intangibles (GAAP)		—	—	2	2	—	—	2	2	
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	535	535	—	—	495	495	
Average total tangible assets	M	\$59,310	\$49,604	\$34,300	\$143,214	\$55,825	\$46,869	\$32,718	\$135,412	
Return on average total tangible assets	I/M	0.76	% 1.53	% NM	0.92	% 0.60	% 1.31	% NM	0.75	%
Return on average tangible common equity:										
Average common equity (GAAP) ⁽¹⁾		\$5,515	\$5,611	\$8,491	\$19,617	\$5,130	\$5,001	\$9,584	\$19,715	
Less: Average goodwill (GAAP)		—	—	6,882	6,882	—	—	6,876	6,876	
Less: Average other intangibles (GAAP)		—	—	2	2	—	—	2	2	
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	535	535	—	—	495	495	
Average tangible common equity ⁽¹⁾	N	\$5,515	\$5,611	\$2,142	\$13,268	\$5,130	\$5,001	\$3,201	\$13,332	
Return on average tangible common equity ⁽¹⁾	J/N	8.13	% 13.54	% NM	9.80	% 6.58	% 12.27	% NM	7.51	%

(1)

(1) 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

The following table presents computations of non-GAAP financial measures representing our "Adjusted" results used throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations":

(in millions, except share, per-share and ratio data)	As of and for the Three Months Ended September 30, Ref. 2017		As of and for the Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
Noninterest income, Adjusted:				
Noninterest income (GAAP)	\$381	\$435	\$1,130	\$1,120
Less: notable items				
Gain on mortgage/home equity TDR transaction	—	72	—	72
Home equity operational items	—	—	—	—
Asset Finance repositioning	—	(5)	—	(5)
TOP III efficiency initiatives	—	—	—	—
Noninterest income, Adjusted (non-GAAP)	\$381	\$368	\$1,130	\$1,053
Total revenue, Adjusted:				
Total revenue (GAAP)	A \$1,443	\$1,380	\$4,223	\$3,892
Less: notable items				
Gain on mortgage/home equity TDR transaction	—	72	—	72
Home equity operational items	—	—	—	—
Asset Finance repositioning	—	(5)	—	(5)
TOP III efficiency initiatives	—	—	—	—
Total revenue, Adjusted (non-GAAP)	O \$1,443	\$1,313	\$4,223	\$3,825
Noninterest expense, Adjusted:				
Noninterest expense (GAAP)	B \$858	\$867	\$2,576	\$2,505
Less: notable items				
Gain on mortgage/home equity TDR transaction	—	—	—	—
Home equity operational items	—	8	—	8
Asset Finance repositioning	—	11	—	11
TOP III efficiency initiatives	—	17	—	17
Noninterest expense, Adjusted (non-GAAP)	P \$858	\$831	\$2,576	\$2,469
Pre-provision profit, Adjusted				
Total revenue, Adjusted (non-GAAP)	O \$1,443	\$1,313	\$4,223	\$3,825
Noninterest expense, Adjusted (non-GAAP)	P 858	831	2,576	2,469
Pre-provision profit, Adjusted (non-GAAP)	\$585	\$482	\$1,647	\$1,356
Income before income tax expense, Adjusted:				
Income before income tax expense (GAAP)	Q \$513	\$427	\$1,409	\$1,120
Less: notable items				
Gain on mortgage/home equity TDR transaction	—	72	—	72
Home equity operational items	—	(8)	—	(8)
Asset Finance repositioning	—	(16)	—	(16)
TOP III efficiency initiatives	—	(17)	—	(17)
Income before income tax expense, Adjusted (non-GAAP)	R \$513	\$396	\$1,409	\$1,089

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

(in millions, except share, per-share and ratio data)	Ref.	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
		2017	2016	2017	2016
Income tax expense and effective income tax rate, Adjusted:					
Income tax expense (GAAP)	S	\$165	\$130	\$423	\$357
Less: Notable items					
Gain on mortgage/home equity TDR transaction		—	27	—	27
Home equity operational items		—	(3)	—	(3)
Asset Finance repositioning		—	(6)	—	(6)
TOP III efficiency initiatives		—	(6)	—	(6)
Income tax expense, Adjusted (non-GAAP)	T	\$165	\$118	\$423	\$345
Effective income tax rate (GAAP)	S/Q	32.18	% 30.46	% 30.04	% 31.87
Effective income tax rate, Adjusted (non-GAAP)	T/R	32.18	29.83	30.04	31.68
Net income, Adjusted:					
Net income (GAAP)	C	\$348	\$297	\$986	\$763
Add: Notable items, net of tax expense					
Gain on mortgage/home equity TDR transaction		—	(45)	—	(45)
Home equity operational items		—	5	—	5
Asset Finance repositioning		—	10	—	10
TOP III efficiency initiatives		—	11	—	11
Net income, Adjusted (non-GAAP)	U	\$348	\$278	\$986	\$744
Net income available to common stockholders, Adjusted:					
Net income available to common stockholders (GAAP)	D	\$341	\$290	\$972	\$749
Add: Notable items, net of tax expense					
Gain on mortgage/home equity TDR transaction		—	(45)	—	(45)
Home equity operational items		—	5	—	5
Asset Finance repositioning		—	10	—	10
TOP III efficiency initiatives		—	11	—	11
Net income available to common stockholders, Adjusted (non-GAAP)	V	\$341	\$271	\$972	\$730
Return on average common equity and return on average common equity, Adjusted:					
Average common equity (GAAP)	E	\$19,728	\$19,810	\$19,617	\$19,715
Return on average common equity	D/E	6.87	% 5.82	% 6.63	% 5.08
Return on average common equity, Adjusted (non-GAAP)	V/E	6.87	5.44	6.63	4.95
Return on average tangible common equity and return on average common equity, Adjusted:					
Average common equity (GAAP)	E	\$19,728	\$19,810	\$19,617	\$19,715
Less: Average goodwill (GAAP)		6,887	6,876	6,882	6,876
Less: Average other intangibles (GAAP)		2	1	2	2
Add: Average deferred tax liabilities related to goodwill (GAAP)		537	509	535	495
Average tangible common equity	F	\$13,376	\$13,442	\$13,268	\$13,332
Return on average tangible common equity	D/F	10.13	% 8.58	% 9.80	% 7.51
Return on average tangible common equity, Adjusted (non-GAAP)	V/F	10.13	8.02	9.80	7.32

Return on average total assets and return on average total assets, Adjusted:

Average total assets (GAAP)	G	\$150,012	\$144,399	\$149,563	\$141,795	
Return on average total assets	C/G	0.92	% 0.82	% 0.88	% 0.72	%
Return on average total assets, Adjusted (non-GAAP)	U/G	0.92	0.77	0.88	0.70	

17

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

(in millions, except share, per-share and ratio data)	Ref.	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,		
		2017	2016	2017	2016	
Return on average total tangible assets and return on average total tangible assets, Adjusted:						
Average total assets (GAAP)	G	\$150,012	\$144,399	\$149,563	\$141,795	
Less: Average goodwill (GAAP)		6,887	6,876	6,882	6,876	
Less: Average other intangibles (GAAP)		2	1	2	2	
Add: Average deferred tax liabilities related to goodwill (GAAP)		537	509	535	495	
Average tangible assets	H	\$143,660	\$138,031	\$143,214	\$135,412	
Return on average total tangible assets	C/H	0.96	% 0.86	% 0.92	% 0.75	%
Return on average total tangible assets, Adjusted (non-GAAP)	U/H	0.96	0.80	0.92	0.73	
Efficiency ratio and efficiency ratio, Adjusted:						
Efficiency ratio	B/A	59.41	% 62.88	% 60.99	% 64.36	%
Efficiency ratio, Adjusted (non-GAAP)	P/O	59.41	63.31	60.99	64.54	
Operating leverage and operating leverage, Adjusted:						
Increase in total revenue		4.57	% 14.14	% 8.50	% 8.35	%
(Decrease) increase in noninterest expense		(1.04)) 8.65	2.83	2.29	
Operating leverage		5.61	% 5.49	% 5.67	% 6.06	%
Increase in total revenue, Adjusted (non-GAAP)		9.90	% 8.60	% 10.41	% 6.49	%
Increase in noninterest expense, Adjusted (non-GAAP)		3.25	4.14	4.33	2.92	
Operating leverage, Adjusted (non-GAAP)		6.65	% 4.46	% 6.08	% 3.57	%
Net income per average common share - basic and diluted, Adjusted:						
Average common shares outstanding - basic (GAAP)	W	500,861,076	519,458,976	505,529,991	525,477,273	
Average common shares outstanding - diluted (GAAP)	X	502,157,384	521,122,466	507,062,805	527,261,384	
Net income available to common stockholders (GAAP)	D	\$341	\$290	\$972	\$749	
Net income per average common share - basic (GAAP)	D/W	0.68	0.56	1.92	1.43	
Net income per average common share - diluted (GAAP)	D/X	0.68	0.56	1.92	1.42	
Net income available to common stockholders, Adjusted (non-GAAP)	V	341	271	972	730	
Net income per average common share - basic, Adjusted (non-GAAP)	V/W	0.68	0.52	1.92	1.39	
Net income per average common share - diluted, Adjusted (non-GAAP)	V/X	0.68	0.52	1.92	1.39	

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

The following table presents computations of non-GAAP financial measures representing our "Underlying" results used throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations":

(in millions, except share, per-share and ratio data)	Ref.	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
		2017	2016	2017	2016
Noninterest income, Underlying:					
Noninterest income (GAAP)		\$381	\$435	\$1,130	\$1,120
Less: Lease impairment credit-related costs		—	—	(11)	—
Noninterest income, Underlying (non-GAAP)		\$381	\$435	\$1,141	\$1,120
Total revenue, Underlying:					
Total revenue (GAAP)	A	\$1,443	\$1,380	\$4,223	\$3,892
Less: Lease impairment credit-related costs		—	—	(11)	—
Total revenue, Underlying (non-GAAP)	Y	\$1,443	\$1,380	\$4,234	\$3,892
Noninterest expense, Underlying:					
Noninterest expense (GAAP)	B	\$858	\$867	\$2,576	\$2,505
Less: Lease impairment credit-related costs		—	—	15	—
Noninterest expense, Underlying (non-GAAP)	Z	\$858	\$867	\$2,561	\$2,505
Pre-provision profit, Underlying:					
Pre-provision profit (GAAP)		\$585	\$513	\$1,647	\$1,387
Less: Lease impairment credit-related costs		—	—	(26)	—
Pre-provision profit, Underlying (non-GAAP)		\$585	\$513	\$1,673	\$1,387
Total credit-related costs, Underlying:					
Provision for credit losses (GAAP)		\$72	\$86	\$238	\$267
Add: Lease impairment credit-related costs		—	—	26	—
Total credit-related costs, Underlying (non-GAAP)		\$72	\$86	\$264	\$267
Income before income tax expense (GAAP)	Q	\$513	\$427	\$1,409	\$1,120
Income tax expense and effective income tax rate, Underlying:					
Income tax expense (GAAP)	S	\$165	\$130	\$423	\$357
Less: Settlement of certain state tax matters		—	—	(23)	—
Income tax expense, Underlying (non-GAAP)	AA	\$165	\$130	\$446	\$357
Effective income tax rate (GAAP)	S/Q	32.18 %	30.46 %	30.04 %	31.87 %
Effective income tax rate, Underlying (non-GAAP)	AA/Q	32.18	30.46	31.65 %	31.87
Net income, Underlying:					
Net income (GAAP)	C	\$348	\$297	\$986	\$763
Less: Settlement of certain state tax matters		—	—	23	—
Net income, Underlying (non-GAAP)	BB	\$348	\$297	\$963	\$763
Net income available to common stockholders, Underlying:					
Net income available to common stockholders (GAAP)	D	\$341	\$290	\$972	\$749
Less: Settlement of certain state tax matters		—	—	23	—
Net income available to common stockholders, Underlying (non-GAAP)	CC	\$341	\$290	\$949	\$749

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

(in millions, except share, per-share and ratio data)	Ref.	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,		
		2017	2016	2017	2016	
Efficiency ratio and efficiency ratio, Underlying:						
Efficiency ratio	B/A	59.41	% 62.88	% 60.99	% 64.36	%
Efficiency ratio, Underlying (non-GAAP)	Z/Y	59.41	62.88	60.47	64.36	
Operating leverage and operating leverage, Underlying						
Increase in total revenue (GAAP)		4.57	% 14.14	% 8.50	% 8.35	%
(Decrease) increase in noninterest expense (GAAP)		(1.04)	) 8.65	2.83	2.29	
Operating leverage		5.61	% 5.49	% 5.67	% 6.06	%
Increase in total revenue, Underlying (non-GAAP)		4.57	% 14.14	% 8.79	% 8.35	%
(Decrease) increase in noninterest expense, Underlying (non-GAAP)		(1.04)	) 8.65	2.24	2.29	
Operating leverage, Underlying (non-GAAP)		5.61	% 5.49	% 6.55	% 6.06	%
Return on average common equity and return on average common equity, Underlying:						
Average common equity (GAAP)	E	\$19,728	\$19,810	\$19,617	\$19,715	
Return on average common equity	D/E	6.87	% 5.82	% 6.63	% 5.08	%
Return on average common equity, Underlying (non-GAAP)	CC/E	6.87	5.82	6.47	5.08	
Return on average tangible common equity and return on average tangible common equity, Underlying:						
Average common equity (GAAP)	E	\$19,728	\$19,810	\$19,617	\$19,715	
Less: Average goodwill (GAAP)		6,887	6,876	6,882	6,876	
Less: Average other intangibles (GAAP)		2	1	2	2	
Add: Average deferred tax liabilities related to goodwill (GAAP)		537	509	535	495	
Average tangible common equity	F	\$13,376	\$13,442	\$13,268	\$13,332	
Return on average tangible common equity	D/F	10.13	% 8.58	% 9.80	% 7.51	%
Return on average tangible common equity, Underlying (non-GAAP)	CC/F	10.13	8.58	9.57	7.51	
Return on average total assets and return on average total assets, Underlying:						
Average total assets (GAAP)	G	\$150,012	\$144,399	\$149,563	\$141,795	
Return on average total assets	C/G	0.92	% 0.82	% 0.88	% 0.72	%
Return on average total assets, Underlying (non-GAAP)	BB/G	0.92	0.82	0.86	0.72	
Return on average total tangible assets and return on average total tangible assets, Underlying:						
Average total assets (GAAP)	G	\$150,012	\$144,399	\$149,563	\$141,795	
Less: Average goodwill (GAAP)		6,887	6,876	6,882	6,876	
Less: Average other intangibles (GAAP)		2	1	2	2	
Add: Average deferred tax liabilities related to goodwill (GAAP)		537	509	535	495	
Average tangible assets	H	\$143,660	\$138,031	\$143,214	\$135,412	
Return on average total tangible assets	C/H	0.96	% 0.86	% 0.92	% 0.75	%
Return on average total tangible assets, Underlying (non-GAAP)	BB/H	0.96	0.86	0.90	0.75	

Net income per average common share - basic and diluted,

Underlying:

Average common shares outstanding - basic (GAAP)	W	500,861,076	519,458,976	505,529,991	525,477,273
Average common shares outstanding - diluted (GAAP)	X	502,157,384	521,122,466	507,062,805	527,261,384
Net income available to common stockholders (GAAP)	D	\$341	\$290	\$972	\$749
Net income per average common share - basic (GAAP)	D/W	0.68	0.56	1.92	1.43
Net income per average common share - diluted (GAAP)	D/X	0.68	0.56	1.92	1.42
Net income available to common stockholders, Underlying (non-GAAP)	CC	341	290	949	749
Net income per average common share - basic, Underlying (non-GAAP)	CC/W	0.68	0.56	1.88	1.43
Net income per average common share - diluted, Underlying (non-GAAP)	CC/X	0.68	0.56	1.87	1.42

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

RESULTS OF OPERATIONS

Third Quarter 2017 vs. Third Quarter 2016

Net income of \$348 million increased \$51 million, or 17%, from \$297 million in third quarter 2016. Net income available to common stockholders of \$341 million increased \$51 million, or 18%, from \$290 million in third quarter 2016;

Net income per average common share, diluted, of \$0.68, compared to \$0.56 in third quarter 2016;

Third quarter 2017 results reflected an 18% increase in net income available to common stockholders, led by revenue growth of 5% with a 12% increase in net interest income given 5% average loan growth and a 21 basis point increase in net interest margin. Prior year results reflected a net \$19 million after-tax benefit tied to the impact of the third quarter 2016 TDR Transaction gain and other notable items. On an Adjusted basis,* which excludes the impact of the TDR Transaction gain and other third quarter 2016 notable items, net income available to common stockholders increased 26%;

Total revenue of \$1.4 billion increased \$63 million, or 5%, reflecting strong net interest income growth. On an Adjusted basis,* total revenue increased \$130 million, or 10%, driven by strength in net interest income and noninterest income:

Net interest income increased 12%, to \$1.1 billion from \$945 million in third quarter 2016, given 5% average loan growth and improvement in net interest margin;

Net interest margin increased 21 basis points to 3.05%, which reflected improved loan yields, driven by balance sheet optimization initiatives and higher rates, and a two basis point benefit tied to higher-than-expected commercial loan interest recoveries, partially offset by an increase in funding costs; and

Noninterest income decreased 12% from higher third quarter 2016 levels that included a net \$67 million TDR Transaction gain. On an Adjusted basis,* which excludes the TDR Transaction gain and other third quarter 2016 notable items, noninterest income increased 4%, as strength in capital markets fees, card fees and letter of credit and loan fees were partially offset by lower mortgage banking fees, foreign exchange and interest rate products and service charges and fees.

Noninterest expense of \$858 million decreased \$9 million, or 1%, from higher third quarter 2016 levels that included \$36 million of notable items. On an Adjusted basis,* which excludes notable items, noninterest expense increased 3%, largely reflecting higher salaries and employee benefits expense and outside services expense, driven by the impact of strategic growth initiatives;

The provision for credit losses of \$72 million in third quarter 2017 decreased \$14 million from \$86 million in third quarter 2016, reflecting strong overall credit quality and lower net charge-offs;

Net charge-offs of \$65 million decreased \$18 million, or 22%, from \$83 million in third quarter 2016. The ALLL of \$1.2 billion remained stable compared to December 31, 2016. ALLL to total loans and leases ratio of 1.11% as of September 30, 2017, compared with 1.15% as of December 31, 2016. ALLL to nonperforming loans and leases ratio of 131% as of September 30, 2017, compared with 118% as of December 31, 2016;

The effective tax rate for third quarter 2017 was 32.2%, compared with 30.5% in third quarter 2016;

Return on average common equity of 6.9% compared to 5.8% in third quarter 2016;

Return on average tangible common equity of 10.1% improved 155 basis points, from 8.6% in third quarter 2016;*

Average interest-earning assets increased \$5.8 billion, or 4%, reflecting 5% loan growth and a 3% increase in the investment portfolio; and

Average deposits of \$112.9 billion increased \$6.3 billion, or 6%, from \$106.6 billion in third quarter 2016, reflecting strength in term, checking with interest, savings and demand deposits.

Nine Months Ended 2017 vs. Nine Months Ended 2016

Net income of \$986 million increased \$223 million compared to \$763 million in the first nine months of 2016. Net income available to common stockholders of \$972 million increased \$223 million, compared to \$749 million in the first nine months of 2016 as the benefit of a 9% increase in revenue and a reduction in the effective income tax rate from the settlement of certain state tax matters was partially offset by a 3% increase in noninterest expense:

On an Underlying basis,* excluding the \$23 million impact from the settlement of certain tax matters, net income increased 26% from \$763 million in the first nine months of 2016; and

On an Adjusted basis,* excluding the \$19 million after-tax benefit related to the TDR Transaction, partially offset by other notable items, net income increased 33% from \$744 million in the first nine months of 2016.

Net income per average common share was \$1.92, diluted, compared to \$1.42 in the first nine months of 2016:

On an Underlying basis,* excluding the \$23 million impact from the settlement of certain state tax matters, net income per average common share increased 32% to \$1.87, diluted, compared to \$1.42 in the first nine months of 2016; and

On an Adjusted basis,* excluding the \$19 million after-tax benefit related to notable items, net income per average common share increased 38% to \$1.92, diluted, compared to \$1.39 in the first nine months of 2016.

Total revenue of \$4.2 billion increased \$331 million, or 9%, reflecting solid net interest income and noninterest income growth:

Net interest income of \$3.1 billion increased \$321 million, or 12%, compared to \$2.8 billion in the first nine months of 2016, reflecting 6% average loan growth and a 15 basis point improvement in net interest margin;

Net interest margin of 3.00% increased 15 basis points, compared to 2.85% in the first nine months of 2016 reflecting improved loan growth, driven by higher rates and balance sheet optimization initiatives, partially offset by investment portfolio growth and higher funding costs; and

Noninterest income of \$1.1 billion increased \$10 million, or 1%, from the first nine months of 2016, largely driven by strength in capital markets fees, card fees, letter of credit and loan fees, foreign exchange and interest rate products and mortgage banking fees. These increases were offset by the second quarter 2017 impact of \$11 million of finance lease impairments and the \$67 million net impact of third quarter 2016 notable items:

On an Underlying basis,* excluding the \$11 million impact related to finance lease impairments, noninterest income increased \$21 million, or 2%, from the first nine months of 2016; and

On an Adjusted basis,* excluding the \$67 million net impact related to notable items, noninterest income increased \$77 million, or 7%, from the first nine months of 2016.

Noninterest expense of \$2.6 billion, which included the \$15 million impact of second quarter 2017 operating lease impairments, increased \$71 million, or 3%, compared to \$2.5 billion in the first nine months of 2016. Results also reflected higher salaries and employee benefits expense, largely tied to higher revenue-based incentives and merit increases and increases in other categories given continued investments in the franchise as well as higher FDIC expense and fraud and regulatory costs:

On an Underlying basis,* excluding the \$15 million impact related to operating lease impairments, noninterest expense increased \$56 million, or 2%, from the first nine months of 2016; and

On an Adjusted basis,* excluding the \$36 million impact related to notable items, noninterest expense increased \$107 million, or 4%, from the first nine months of 2016.

Provision for credit losses of \$238 million decreased \$29 million, or 11%, from \$267 million in the first nine months of 2016.

On an Underlying basis,* total credit-related costs of \$264 million, including the \$26 million impact of lease impairments, were down slightly from the first nine months of 2016.

Net charge-offs of \$227 million decreased \$4 million, or 2%, from \$231 million in the first nine months of 2016. The ALLL of \$1.2 billion decreased \$12 million compared to December 31, 2016. ALLL to total loans and leases was 1.11% as of September 30, 2017, compared with 1.15% as of December 31, 2016. ALLL to nonperforming loans and leases ratio was 131% as of September 30, 2017, compared with 118% as of December 31, 2016.

Return on average common equity was 6.6% compared to 5.1% for the first nine months of 2016.

On an Underlying basis,* return on average common equity of 6.5% improved 139 bps from 5.1% for the first nine months of 2016.

On an Adjusted basis,* return on average common equity of 6.6% improved 168 bps from 5.0% for the first nine months of 2016.

Return on average tangible common equity was 9.8% compared to 7.5% for the first nine months of 2016.*

On an Underlying basis,* return on average tangible common equity of 9.6% improved 206 bps from 7.5% for the first nine months of 2016.

On an Adjusted basis,* return on average tangible common equity of 9.8% improved 248 bps from 7.3% for the first nine months of 2016.

Average loans and leases of \$108.9 billion increased \$6.6 billion, or 6%, from \$102.3 billion in the first nine months of 2016, driven by a \$3.6 billion increase in commercial loans and leases and a \$3.0 billion increase in retail loans.

Average deposits of \$111.2 billion increased \$7.0 billion, or 7%, from \$104.2 billion in the first nine months of 2016, driven by strength in checking with interest, term, money market and savings.

The effective tax rate in the first nine months of 2017 of 30.0% compared with 31.9% in the first nine months of 2016.

On an Underlying basis,* the effective income tax rate improved 22 bps to 31.7% from 31.9% for the first nine months of 2016.

On an Adjusted basis,* the effective income tax rate improved 164 bps to 30.0% from 31.7% for the first nine months of 2016.

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

Net Income

Net income of \$348 million, increased \$51 million, or 17%, from \$297 million in third quarter 2016. Net income totaled \$986 million, up \$223 million, or 29%, from \$763 million in the first nine months of 2016.

The following table presents the significant components of our net income:

(dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,				
	2017	2016	Change	Percent	2017	2016	Change	Percent	
Operating Data:									
Net interest income	\$1,062	\$945	\$117	12 %	\$3,093	\$2,772	\$321	12 %	
Noninterest income	381	435	(54)	(12)	1,130	1,120	10	1	
Total revenue	1,443	1,380	63	5	4,223	3,892	331	9	
Provision for credit losses	72	86	(14)	(16)	238	267	(29)	(11)	
Noninterest expense	858	867	(9)	(1)	2,576	2,505	71	3	
Income before income tax expense	513	427	86	20	1,409	1,120	289	26	
Income tax expense	165	130	35	27	423	357	66	18	
Net income	\$348	\$297	\$51	17	\$986	\$763	\$223	29	
Net income available to common stockholders	\$341	\$290	\$51	18 %	\$972	\$749	\$223	30 %	
Return on average common equity	6.87 %	5.82 %	105 bps		6.63 %	5.08 %	155 bps		
Return on average tangible common equity	10.13 %	8.58 %	155 bps		9.80 %	7.51 %	229 bps		

Net Interest Income

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 effective yield on such assets and the effective cost of such liabilities. These factors are influenced by 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,” included in this report.

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. However, 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. The level of net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. In the first nine months of 2017, short-term interest rates have risen from very low levels by historical standards, with many benchmark rates, such as the federal funds rate and one- and three-month LIBOR, near 1.25%. Concurrently, longer-term rates have declined, with the ten-year U.S. Treasury note yield declining 30 basis points from the December 2016 average of 2.50% to 2.20% for September 2017. Any 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.

The FRB continued to follow its stated monetary policy during the first nine months of 2017 and increased the Fed Funds rate by 0.25% in both March and June 2017. The FRB targeted a 1.00% to 1.25% Fed Funds rate at September 2017 and interest rates are expected to gradually increase to more normal levels. Also in September 2017, the FRB announced plans to initiate a balance sheet normalization program by reducing its holdings of U.S. Treasury and agency securities. The balance sheet normalization process is expected to be gradual and predictable, with long-term impacts on interest rates and mortgage rates.

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

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

(dollars in millions)	Three Months Ended September 30,								
	2017				2016				Change
	Average Balances	Income/Yields/ ExpenseRates			Average Balances	Income/Yields/ ExpenseRates			Change AverageYields/ BalanceRates
Assets									
Interest-bearing cash and due from banks and deposits in banks	\$1,663	\$5	1.14 %		\$2,121	\$2	0.41 %	(\$458)	73 bps
Taxable investment securities	25,588	155	2.42		24,961	146	2.34	627	8
Non-taxable investment securities	7	—	2.60		8	—	2.60	(1)	—
Total investment securities	25,595	155	2.42		24,969	146	2.34	626	8
Commercial	37,448	344	3.61		35,986	290	3.14	1,462	47
Commercial real estate	11,401	108	3.69		9,905	71	2.82	1,496	87
Leases	3,302	21	2.54		3,813	23	2.43	(511)	11
Total commercial	52,151	473	3.56		49,704	384	3.02	2,447	54
Residential mortgages	16,323	146	3.57		14,155	127	3.59	2,168	(2)
Home equity loans	1,547	22	5.72		2,088	30	5.75	(541)	(3)
Home equity lines of credit	13,608	135	3.93		14,314	115	3.20	(706)	73
Home equity loans serviced by others	618	11	7.04		837	16	7.24	(219)	(20)
Home equity lines of credit serviced by others	173	2	4.05		256	2	2.47	(83)	158
Automobile	13,349	111	3.31		14,053	104	2.96	(704)	35
Education ⁽¹⁾	7,814	106	5.36		5,750	73	5.10	2,064	26
Credit cards	1,738	47	10.69		1,623	46	11.24	115	(55)
Other retail	2,163	43	7.88		1,256	29	9.39	907	(151)
Total retail	57,333	623	4.32		54,332	542	3.98	3,001	34
Total loans and leases	109,484	1,096	3.96		104,036	926	3.52	5,448	44
Loans held for sale, at fair value	503	5	3.69		474	4	3.35	29	34
Other loans held for sale	234	3	4.72		69	1	6.41	165	(169)
Interest-earning assets	137,479	1,264	3.64		131,669	1,079	3.25	5,810	39
Allowance for loan and lease losses	(1,220)				(1,243)			23	
Goodwill	6,887				6,876			11	
Other noninterest-earning assets	6,866				7,097			(231)	
Total assets	\$150,012				\$144,399			\$5,613	
Liabilities and Stockholders' Equity									
Checking with interest	\$21,909	\$23	0.43 %		\$19,997	\$9	0.20 %	\$1,912	23 bps
Money market accounts	37,535	54	0.57		37,596	35	0.38	(62)	19
Regular savings	9,491	1	0.04		8,780	2	0.05	712	(1)
Term deposits	15,971	45	1.09		12,806	25	0.76	3,165	33
Total interest-bearing deposits	84,906	123	0.58		79,179	71	0.36	5,727	22
Federal funds purchased and securities sold under agreements to repurchase ⁽²⁾	733	1	0.50		910	1	0.24	(177)	26
Other short-term borrowed funds	1,624	7	1.55		2,564	10	1.54	(940)	1
Long-term borrowed funds	12,210	71	2.31		10,905	52	1.89	1,305	42
Total borrowed funds	14,567	79	2.14		14,379	63	1.72	188	42
Total interest-bearing liabilities	99,473	202	0.80		93,558	134	0.57	5,915	23
Demand deposits	28,041				27,467			574	
Other liabilities	2,523				3,317			(794)	
Total liabilities	130,037				124,342			5,695	

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

Stockholders' equity	19,975			20,057			(82)
Total liabilities and stockholders' equity	\$150,012			\$144,399			\$5,613
Interest rate spread			2.84 %			2.68 %	16
Net interest income		\$1,062			\$945		
Net interest margin			3.05 %			2.84 %	21 bps
Memo: Total deposits (interest-bearing and demand)	\$112,947	\$123	0.43 %	\$106,646	\$71	0.27 %	\$6,301 16 bps

(1) During first quarter 2017, student loans were renamed "education" loans. For further information see Note 1 "Basis of Presentation" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

(2) Balances are net of certain short-term receivables associated with reverse repurchase agreements, as applicable. Interest expense includes the full cost of the repurchase agreements and certain hedging costs. See "—Analysis of Financial Condition — Derivatives" for further information.

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

Net interest income of \$1.1 billion increased \$117 million, or 12%, compared to \$945 million in third quarter 2016, driven by 5% average loan growth and a 21 basis point improvement in net interest margin.

Average interest-earning assets of \$137.5 billion increased \$5.8 billion, or 4%, from third quarter 2016, driven by a \$2.4 billion increase in average commercial loans and leases, a \$3.0 billion increase in average retail loans, and a \$626 million increase in total investment securities. Commercial loans and leases increased 5% from the prior year quarter reflecting strength in commercial and commercial real estate loans, partially offset by lower leases. Retail loans increased 6% from prior year quarter, reflecting strong growth in education, mortgage and other unsecured retail, partially offset by lower home equity and auto balances.

Average deposits of \$112.9 billion increased \$6.3 billion from third quarter 2016, reflecting growth in term deposits, checking with interest and savings, as well as modest growth in demand deposits. Total interest-bearing deposit costs increased 22 basis points compared to third quarter 2016, reflecting the impact of higher short-term rates and the need to keep pace with loan growth.

Average borrowed funds of \$14.6 billion increased \$188 million, or 1%, from third quarter 2016 due to a \$1.3 billion increase in long-term borrowed funds, which reflected growth in long-term senior debt and long-term FHLB borrowed funds, as the term funding profile continues to be strengthened, partially offset by a \$940 million decrease in other short-term borrowed funds, largely FHLB advances and a \$177 million reduction in federal funds purchased and securities sold under agreements to repurchase. Total borrowed funds costs of \$79 million increased \$16 million from third quarter 2016, primarily due to the increase in short-term interest rates and the change in mix to long-term senior debt.

Net interest margin of 3.05% increased 21 basis points compared to 2.84% in third quarter 2016, driven by higher commercial and retail loan yields given balance sheet optimization initiatives and higher rates, and a two basis point benefit tied to higher-than-expected commercial loan interest recoveries, partially offset by higher deposit and funding costs. The average interest-earning asset yield of 3.64% increased 39 basis points from 3.25% in third quarter 2016, driven by the benefit of a 44 basis point improvement in loan yields tied to increases in short-term rates. The investment portfolio yield increased eight basis points compared to the prior year quarter, reflecting a change in mix as lower-yielding short-term investments were managed lower. Total interest-bearing liabilities rate of 0.80% increased 23 basis points compared to 0.57% in third quarter 2016 due to a 22 basis point increase in interest-bearing deposit costs, driven mainly by term deposits, checking with interest and money market accounts. The issuance of additional long-term borrowed funds also contributed to the increase in our interest-bearing liability rate.

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

(dollars in millions)	Nine Months Ended September 30,							
	2017			2016			Change	
	Average Balances	Income/Yields/ExpenseRates		Average Balances	Income/Yields/ExpenseRates		Average Balance	Yields/Rates
Assets								
Interest-bearing cash and due from banks and deposits in banks	\$1,902	\$13	0.87 %	\$1,915	\$6	0.40 %	(\$13)	47 bps
Taxable investment securities	25,702	469	2.43	24,294	432	2.37	1,408	6
Non-taxable investment securities	7	—	2.60	9	—	2.60	(2)	—
Total investment securities	25,709	469	2.43	24,303	432	2.37	1,406	6
Commercial	37,603	982	3.45	35,212	832	3.10	2,391	35
Commercial real estate	11,105	292	3.46	9,555	200	2.75	1,550	71
Leases	3,517	66	2.50	3,864	71	2.44	(347)	6
Total commercial	52,225	1,340	3.39	48,631	1,103	2.98	3,594	41
Residential mortgages	15,755	422	3.57	13,705	375	3.65	2,050	(8)
Home equity loans	1,668	71	5.71	2,263	95	5.63	(595)	8
Home equity lines of credit	13,775	379	3.68	14,474	343	3.16	(699)	52
Home equity loans serviced by others	668	35	7.06	898	49	7.09	(230)	(3)
Home equity lines of credit serviced by others	189	6	4.00	298	5	2.21	(109)	179
Automobile	13,563	328	3.23	13,940	304	2.91	(377)	32
Education	7,384	292	5.29	5,338	202	5.06	2,046	23
Credit cards	1,699	138	10.85	1,608	135	11.24	91	(39)
Other retail	1,976	117	7.94	1,177	79	9.01	799	(107)
Total retail	56,677	1,788	4.21	53,701	1,587	3.95	2,976	26
Total loans and leases	108,902	3,128	3.82	102,332	2,690	3.49	6,570	33
Loans held for sale, at fair value	492	13	3.53	383	10	3.46	109	7
Other loans held for sale	158	6	5.29	185	6	4.53	(27)	76
Interest-earning assets	137,163	3,629	3.52	129,118	3,144	3.23	8,045	29
Allowance for loan and lease losses	(1,226)			(1,225)			(1)	
Goodwill	6,882			6,876			6	
Other noninterest-earning assets	6,744			7,026			(282)	
Total noninterest-earning assets	12,400			12,677			(277)	
Total assets	\$149,563			\$141,795			\$7,768	
Liabilities and Stockholders' Equity								
Checking with interest	\$21,457	\$56	0.35 %	\$19,001	\$24	0.17 %	\$2,456	18 bps
Money market accounts	37,439	140	0.50	36,673	95	0.35	766	15
Regular savings	9,355	3	0.04	8,646	3	0.04	709	—
Term deposits	15,104	112	0.99	12,530	72	0.77	2,574	22
Total interest-bearing deposits	83,355	311	0.50	76,850	194	0.34	6,505	16
Federal funds purchased and securities sold under agreements to repurchase ⁽¹⁾	807	2	0.36	922	2	0.22	(115)	14
Other short-term borrowed funds	2,283	22	1.23	3,133	33	1.38	(850)	(15)
Long-term borrowed funds	12,755	201	2.10	10,375	143	1.84	2,380	26
Total borrowed funds	15,845	225	1.88	14,430	178	1.63	1,415	25
Total interest-bearing liabilities	99,200	536	0.72	91,280	372	0.54	7,920	18
Demand deposits	27,886			27,362			524	
Other liabilities	2,613			3,191			(578)	
Total liabilities	129,699			121,833			7,866	

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

Stockholders' equity	19,864			19,962			(98)
Total liabilities and stockholders' equity	\$149,563			\$141,795			\$7,768
Interest rate spread			2.80 %			2.69 %	11
Net interest income		\$3,093			\$2,772		
Net interest margin			3.00 %			2.85 %	15 bps
Memo: Total deposits (interest-bearing and demand)	\$111,241	\$311	0.37 %	\$104,212	\$194	0.25 %	\$7,029 12 bps

⁽¹⁾ Balances are net of certain short-term receivables associated with reverse repurchase agreements, as applicable. Interest expense includes the full cost of the repurchase agreements and certain hedging costs. See “—Analysis of Financial Condition — Derivatives” for further information.

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

Net interest income of \$3.1 billion in the first nine months of 2017 increased \$321 million, or 12%, compared to \$2.8 billion in the first nine months of 2016, reflecting 6% average loan growth and a 15 basis point improvement in net interest margin.

Average interest-earning assets of \$137.2 billion increased \$8.0 billion, or 6%, from the first nine months of 2016, driven by a \$3.6 billion increase in average commercial loans and leases, a \$3.0 billion increase in average retail loans, and a \$1.4 billion increase in average investments and interest-bearing cash and due from banks and deposits in banks. Commercial loan growth was driven by strength in commercial and commercial real estate. Retail loan growth was driven by strength in education, residential mortgage and other retail balances.

Average deposits of \$111.2 billion increased \$7.0 billion from the first nine months of 2016, reflecting growth in all categories with particular strength in checking with interest and term deposits. Total interest-bearing deposit costs of \$311 million increased \$117 million, or 60%, from \$194 million in 2016, primarily due to the impact of rising rates and a shift in mix toward commercial deposits.

Average total borrowed funds of \$15.8 billion increased \$1.4 billion from the first nine months of 2016, reflecting an increase in average long-term borrowed funds driven by issuances of senior notes. Total borrowed funds costs of \$225 million increased \$47 million from the first nine months of 2016. The total borrowed funds yield of 1.88% in the first nine months of 2017 increased 25 basis points from 1.63% in the first nine months of 2016 due to an increase in long-term rates and a mix shift to long-term senior debt.

Net interest margin of 3.00% increased 15 basis points compared to 2.85% in the first nine months of 2016, driven by improved loan yields reflecting both higher interest rates and balance sheet optimization initiatives. These results were partially offset by the impact of investment portfolio growth and higher deposit and funding costs. Average interest-earning asset yields of 3.52% increased 29 basis points from 3.23% in the first nine months of 2016, while average interest-bearing liability costs of 0.72% increased 18 basis points from 0.54% in the first nine months of 2016.

Noninterest Income

The following table presents the significant components of our noninterest income:

(in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	Change	Percent	2017	2016	Change	Percent
Service charges and fees ⁽¹⁾	\$131	\$134	(\$3)	(2)	\$385	\$390	(\$5)	(1)
Card fees	58	52	6	12	177	153	24	16
Capital markets fees ⁽¹⁾	53	36	17	47	152	99	53	54
Trust and investment services fees	38	37	1	3	116	112	4	4
Letter of credit and loan fees ⁽¹⁾	30	28	2	7	90	83	7	8
Foreign exchange and interest rate products ⁽¹⁾	24	28	(4)	(14)	77	72	5	7
Mortgage banking fees	27	33	(6)	(18)	80	76	4	5
Securities gains, net	2	—	2	100	9	13	(4)	(31)
Other income ⁽¹⁾⁽²⁾	18	87	(69)	(79)	44	122	(78)	(64)
Noninterest income	\$381	\$435	(\$54)	(12)	\$1,130	\$1,120	\$10	1

⁽¹⁾ In first quarter 2017, certain prior period noninterest income amounts reported in the Consolidated Statement of Operations were reclassified to enhance transparency and provide additional granularity, particularly with regard to fee income related to customer activity. These changes had no effect on net income as previously reported.

⁽²⁾ Includes net securities impairment losses on securities available for sale recognized in earnings, bank-owned life insurance income and other income.

Noninterest income of \$381 million decreased \$54 million, or 12%, from \$435 million in third quarter 2016. Third quarter 2017 results reflect strength in capital market fees and card fees, offset by a \$69 million decrease in other

income. Card fees increased \$6 million, reflecting the benefit of revised contract terms for processing fees and an increase in purchase volume. Capital markets fees increased \$17 million, reflecting strength in loan syndications, bond and equity underwriting fees and advisory fees given stronger market volumes and the investments made to broaden our capabilities. On an Adjusted basis,* excluding the \$67 million net impact of 2016 notable items, noninterest income increased \$13 million, or 4%.

Noninterest income of \$1.1 billion increased \$10 million, or 1%, compared to the first nine months of 2016 driven by capital market fees, card fees, letter of credit and loan fees, foreign exchange and interest rate products, mortgage banking fees and trust and investment service fees, partially offset by a reduction in other income. Capital markets fees increased \$53 million, reflecting underlying business momentum and the impact of building capabilities.

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

Card fees and mortgage banking fees increased \$24 million and \$4 million, respectively, from the first nine months of 2016. Underlying* noninterest income of \$1.1 billion increased \$21 million, or 2%, excluding the \$11 million impact of finance lease impairments. On an Adjusted basis,* excluding the \$67 million net impact of notable items, noninterest income increased \$77 million, or 7%.

Provision for Credit Losses

The provision for credit losses of \$72 million in third quarter 2017 decreased \$14 million from \$86 million in third quarter 2016, largely reflecting strong overall portfolio credit quality and lower net charge-offs. Third quarter 2017 net charge-offs of \$65 million were \$18 million lower than third quarter 2016 reflecting a \$19 million decrease in total commercial net charge-offs. The third quarter 2017 results reflected a \$7 million increase in the allowance for credit losses compared to a \$3 million increase in the third quarter 2016. The third quarter 2017 increase included reserves associated with estimated hurricane exposure. Overall credit quality remained strong reflecting growth in high quality, lower risk retail loans and a broadly stable commercial risk profile.

The provision for credit losses of \$238 million decreased \$29 million for the first nine months of 2017 from \$267 million for the first nine months of 2016, primarily due to continued asset improvement and a decline in net charge-offs. The first nine months of 2017 results reflected an \$11 million reserve build, compared to a \$36 million reserve build in the first nine months of 2016, largely due to loan growth as well as the shift in asset mix toward lower risk retail loans. Net charge-offs for the first nine months of 2017 of \$227 million were \$4 million lower than the first nine months of 2016 reflecting a \$7 million decrease in total retail net charge-offs. Total Underlying credit-related costs of \$264 million,* including lease impairments, were relatively stable with the first nine months of 2016.

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 includes 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 presents the significant components of our noninterest expense:

(in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	Change	Percent	2017	2016	Change	Percent
Salaries and employee benefits	\$436	\$432	\$4	1 %	\$1,312	\$1,289	\$23	2 %
Outside services	99	102	(3)	(3)	286	279	7	3
Occupancy	78	78	—	—	239	230	9	4
Equipment expense	65	65	—	—	196	194	2	1
Amortization of software	45	46	(1)	(2)	134	126	8	6
Other operating expense	135	144	(9)	(6)	409	387	22	6
Noninterest expense	\$858	\$867	(\$9)	(1 %)	\$2,576	\$2,505	\$71	3 %

Noninterest expense of \$858 million decreased \$9 million, or 1%, from \$867 million in third quarter 2016, driven by a \$36 million reduction tied to third quarter 2016 notable items. On an Adjusted basis,* excluding the \$36 million impact of 2016 notable items, noninterest expense increased \$27 million, or 3%, largely reflecting higher salaries and employee benefits and outside services driven by the impact of strategic growth initiatives. Adjusted results* also reflect stable occupancy and equipment expense, and an increase in other expense, largely due to higher advertising expense and legacy home equity operational items, partially offset by lower credit collection costs.

Noninterest expense of \$2.6 billion in the first nine months of 2017 increased \$71 million, or 3%, compared to the first nine months of 2016, reflecting the \$15 million impact of operating lease impairments and an increase in salaries and employee benefits driven by higher revenue-based incentives and merit increase. The first nine months of 2017 compared to the first nine months of 2016 also reflected an increase in occupancy, amortization of software, outside services and equipment expense given continued investments in the franchise as well as higher FDIC expense and fraud and regulatory costs. On an Underlying basis,* noninterest expense increased \$56 million,

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

or 2%, excluding the \$15 million impact of operating lease impairments. On an Adjusted basis,* excluding the \$36 million impact of 2016 notable items, noninterest expense increased \$107 million, or 4%.

Income Tax Expense

Income tax expense was \$165 million and \$130 million in third quarter 2017 and 2016, respectively. This resulted in an effective tax rate of 32.2% and 30.5% in third quarter 2017 and 2016, respectively. The increase in the effective tax rate was primarily attributable to the impact of federal and state tax credit recoveries recorded in third quarter 2016, partially offset by the impact of investments in historic tax credits in third quarter 2017.

Income tax expense was \$423 million and \$357 million for the first nine months of 2017 and 2016, respectively. This resulted in an effective tax rate of 30.0% and 31.9% for the first nine months of 2017 and 2016, respectively. The decrease in the effective income tax rate was driven by the impact of the settlement of certain state tax matters, investments in historic tax credits, and the accounting method change for share-based compensation (FASB Accounting Standards Update 2016-09) which we adopted in January 2017 on a prospective basis, partially offset by the prior year federal and state tax credit recoveries.

At September 30, 2017, our net deferred tax liability was \$744 million, compared with \$714 million at December 31, 2016. The increase in the net deferred tax liability was primarily attributable to the tax effect of net unrealized gains on securities and derivatives, partially offset by the tax effect of differences in the timing of deductions and income items for financial statement purposes versus taxable income purposes. For further discussion, see Note 9 "Income Taxes" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

The Trump administration has announced plans to introduce tax reform intended to lower corporate income tax rates. Any legislation affecting income tax rates could have an impact on our future effective tax rate, the significance of which would depend on the timing, nature and scope of any such legislation, as well as the level and composition of our earnings. If tax legislation is passed, a reduction in the corporate income tax rate could lower our annual effective income tax rate and result in a one-time tax benefit associated with a revaluation of our net deferred tax liability.

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

Business Segments

The following tables present certain financial data of our operating segments, Other and consolidated:

(dollars in millions)	As of and for the Three Months Ended September 30, 2017			
	Consumer Banking	Commercial Banking	Other ⁽⁴⁾	Consolidated
Net interest income	\$674	\$354	\$34	\$1,062
Noninterest income	227	136	18	381
Total revenue	901	490	52	1,443
Noninterest expense	648	195	15	858
Profit before provision for credit losses	253	295	37	585
Provision for credit losses	65	—	7	72
Income before income tax expense	188	295	30	513
Income tax expense	66	94	5	165
Net income	\$122	\$201	\$25	\$348
Loans and leases (period-end) ⁽¹⁾	\$59,211	\$49,313	\$2,851	\$111,375
Average Balances:				
Total assets	\$60,012	\$49,833	\$40,167	\$150,012
Total loans and leases ⁽¹⁾	58,679	48,746	2,796	110,221
Deposits	75,085	30,751	7,111	112,947
Interest-earning assets	58,729	48,875	29,875	137,479
Key Performance Metrics:				
Net interest margin ⁽²⁾	4.55	% 2.88	% NM	3.05 %
Efficiency ratio	71.88	39.39	NM	59.41
Average loans to average deposits ratio ⁽¹⁾	78.15	158.52	NM	97.59
Return on average total tangible assets ⁽²⁾	0.81	1.60	NM	0.96
Return on average tangible common equity ^{(2) (3)}	8.72	14.06	NM	10.13

⁽¹⁾ Includes loans held for sale.

⁽²⁾ Ratios for the period ended September 30, 2017 are presented on an annualized basis.

⁽³⁾ 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.

⁽⁴⁾ 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 — Non-Core Assets.”

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

(dollars in millions)	As of and for the Three Months Ended September 30, 2016			
	Consumer Banking	Commercial Banking	Other ⁽⁴⁾	Consolidated
Net interest income	\$621	\$327	(\$3)	\$945
Noninterest income	229	123	83	435
Total revenue	850	450	80	1,380
Noninterest expense	650	181	36	867
Profit before provision for credit losses	200	269	44	513
Provision for credit losses	57	19	10	86
Income before income tax expense (benefit)	143	250	34	427
Income tax expense (benefit)	51	88	(9)	130
Net income	\$92	\$162	\$43	\$297
Loans and leases (period-end) ⁽¹⁾	\$56,230	\$46,292	\$3,471	\$105,993
Average Balances:				
Total assets	\$56,689	\$47,902	\$39,808	\$144,399
Total loans and leases ⁽¹⁾	55,376	46,611	2,592	104,579
Deposits	72,141	27,847	6,658	106,646
Interest-earning assets	55,423	46,666	29,580	131,669
Key Performance Metrics:				
Net interest margin ⁽²⁾	4.46	% 2.79	% NM	2.84 %
Efficiency ratio	76.46	40.21	NM	62.88
Average loans to average deposits ratio ⁽¹⁾	76.76	167.38	NM	98.06
Return on average total tangible assets ⁽²⁾	0.64	1.35	NM	0.86
Return on average tangible common equity ^{(2) (3)}	7.04	12.50	NM	8.58

⁽¹⁾ Includes loans held for sale.

⁽²⁾ Ratios for the period ended September 30, 2016 are presented on an annualized basis.

⁽³⁾ 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.

⁽⁴⁾ 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 — Non-Core Assets.”

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

(dollars in millions)	As of and for the Nine Months Ended September 30, 2017			
	Consumer Banking	Commercial Banking	Other ⁽⁴⁾	Consolidated
Net interest income	\$1,969	\$1,044	\$80	\$3,093
Noninterest income	676	400	54	1,130
Total revenue	2,645	1,444	134	4,223
Noninterest expense	1,939	577	60	2,576
Profit before provision for credit losses	706	867	74	1,647
Provision for credit losses	189	20	29	238
Income before income tax expense (benefit)	517	847	45	1,409
Income tax expense (benefit)	182	279	(38)	423
Net income	\$335	\$568	\$83	\$986
Loans and leases (period-end) ⁽¹⁾	\$59,211	\$49,313	\$2,851	\$111,375
Average Balances:				
Total assets	\$59,310	\$49,604	\$40,649	\$149,563
Total loans and leases ⁽¹⁾	57,975	48,560	3,017	109,552
Deposits	74,778	29,496	6,967	111,241
Interest-earning assets	58,026	48,696	30,441	137,163
Key Performance Metrics:				
Net interest margin ⁽²⁾	4.54	% 2.87	% NM	3.00 %
Efficiency ratio	73.28	39.89	NM	60.99
Average loans to average deposits ratio ⁽¹⁾	77.53	164.63	NM	98.48
Return on average total tangible assets ⁽²⁾	0.76	1.53	NM	0.92
Return on average tangible common equity ^{(2) (3)}	8.13	13.54	NM	9.80

⁽¹⁾ Includes loans held for sale.

⁽²⁾ Ratios for the period ended September 30, 2017 are presented on an annualized basis.

⁽³⁾ 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.

⁽⁴⁾ 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 — Non-Core Assets.”

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

(dollars in millions)	As of and for the Nine Months Ended September 30, 2016			
	Consumer Banking	Commercial Banking	Other ⁽⁴⁾	Consolidated
Net interest income	\$1,804	\$941	\$27	\$2,772
Noninterest income	656	344	120	1,120
Total revenue	2,460	1,285	147	3,892
Noninterest expense	1,898	554	53	2,505
Profit before provision for credit losses	562	731	94	1,387
Provision for credit losses	169	27	71	267
Income before income tax expense (benefit)	393	704	23	1,120
Income tax expense (benefit)	140	245	(28)	357
Net income	\$253	\$459	\$51	\$763
Loans and leases (period-end) ⁽¹⁾	\$56,230	\$46,292	\$3,471	\$105,993
Average Balances:				
Total assets	\$55,825	\$46,869	\$39,101	\$141,795
Total loans and leases ⁽¹⁾	54,494	−45,532	2,874	102,900
Deposits	71,627	25,938	6,647	104,212
Interest-earning assets	54,542	45,611	28,965	129,118
Key Metrics				
Net interest margin ⁽²⁾	4.42	% 2.76	% NM	2.85 %
Efficiency ratio	77.15	43.15	NM	64.36
Average loans to average deposits ratio ⁽¹⁾	76.08	175.54	NM	98.74
Return on average total tangible assets ⁽²⁾	0.60	1.31	NM	0.75
Return on average tangible common equity ^{(2) (3)}	6.58	12.27	NM	7.51

⁽¹⁾ Includes loans held for sale.

⁽²⁾ Ratios for the period ended September 30, 2016 are presented on an annualized basis.

⁽³⁾ 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.

⁽⁴⁾ 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 — Non-Core Assets.”

We operate our business through two operating segments: Consumer Banking and Commercial Banking. Segment results are derived by specifically attributing managed assets, liabilities, capital and their related revenues, provision for credit losses and expenses. 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 (including legacy Royal Bank of Scotland Group plc aircraft loan and leasing), and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses. For a description of non-core assets, see “—Analysis of Financial Condition — Non-Core Assets.” In addition, Other includes goodwill and any associated goodwill impairment charges. For impairment testing purposes, we allocate goodwill to Consumer Banking and Commercial Banking reporting units. For management reporting purposes, we present the goodwill balance (and any related impairment charges) in Other.

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 September 30,				As of and for the Nine Months Ended September 30,				
	2017	2016	Change	Percent	2017	2016	Change	Percent	
Net interest income	\$674	\$621	\$53	9	% \$1,969	\$1,804	\$165	9	%
Noninterest income	227	229	(2)	(1)	676	656	20	3	
Total revenue	901	850	51	6	2,645	2,460	185	8	
Noninterest expense	648	650	(2)	-	1,939	1,898	41	2	
Profit before provision for credit losses	253	200	53	27	706	562	144	26	
Provision for credit losses	65	57	8	14	189	169	20	12	
Income before income tax expense	188	143	45	31	517	393	124	32	
Income tax expense	66	51	15	29	182	140	42	30	
Net income	\$122	\$92	\$30	33	\$335	\$253	\$82	32	
Loans and leases (period-end) ⁽¹⁾	\$59,211	\$56,230	\$2,981	5	\$59,211	\$56,230	\$2,981	5	
Average Balances:									
Total assets	\$60,012	\$56,689	\$3,323	6	% \$59,310	\$55,825	\$3,485	6	%
Total loans and leases ⁽¹⁾	58,679	55,376	3,303	6	57,975	54,494	3,481	6	
Deposits	75,085	72,141	2,944	4	74,778	71,627	3,151	4	
Interest-earning assets	58,729	55,423	3,306	6	58,026	54,542	3,484	6	

Key Performance

Metrics:

Net interest margin ⁽²⁾	4.55	% 4.46	% 9	bps	4.54	% 4.42	%	12	bps
Efficiency ratio	71.88	76.46	(458	) bps	73.28	77.15	(387	) bps	
Average loans to average deposits ratio ⁽¹⁾	78.15	76.76	139	bps	77.53	76.08	145	bps	
Return on average total tangible assets ⁽²⁾	0.81	0.64	17	bps	0.76	0.60	16	bps	
Return on average tangible common equity ^{(2) (3)}	8.72	7.04	168	bps	8.13	6.58	155	bps	

⁽¹⁾ Includes loans held for sale.

⁽²⁾ Ratios for the periods ended September 30, 2017 and 2016 are presented on an annualized basis.

⁽³⁾ 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 \$122 million increased \$30 million, or 33%, from \$92 million in third quarter 2016, reflecting a \$51 million increase in total revenue relative to a \$2 million decrease in noninterest expense. Net interest income of \$674 million increased \$53 million, or 9%, from third quarter 2016, driven by a \$3.3 billion increase in average loans, driven by growth in mortgage, education and unsecured retail loan balances, and higher rates and mix shift were partially offset by an increase in deposit costs.

Noninterest income of \$227 million was relatively stable with third quarter 2016, largely reflecting growth in card fees and a reduction in mortgage banking fees and service charges and fees. Noninterest expense of \$648 million remained relatively stable as lower software amortization and lower other operating expenses, largely home equity systems and operational costs, were partially offset by higher FDIC expense, salaries and benefits and

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

advertising expense. Provision for credit losses of \$65 million increased \$8 million, or 14%, from \$57 million in third quarter 2016, primarily driven by higher net charge-offs in auto, retail unsecured, home equity and education.

Consumer Banking net income of \$335 million increased \$82 million, or 32%, from \$253 million in the first nine months of 2016, as the benefit of a \$185 million increase in total revenue more than offset a \$41 million increase in noninterest expense. Net interest income of \$2.0 billion increased \$165 million, or 9%, from the first nine months of 2016, driven by the benefit of a \$3.5 billion increase in average loans led by residential mortgage, education and retail unsecured categories, partially offset by an increase in deposit costs.

Noninterest income increased \$20 million, or 3%, from the first nine months of 2016, driven by an increase in card fees and mortgage banking fees, partially offset by lower service charges and fees. Noninterest expense of \$1.9 billion increased \$41 million, or 2%, from the first nine months of 2016, driven by higher outside services, FDIC expense, salaries and benefits, occupancy costs, software amortization and advertising expense. These results were partially offset by lower credit collection costs. Provision for credit losses of \$189 million increased \$20 million, or 12%, from \$169 million in the first nine months of 2016, largely driven by higher net charge-offs in auto.

Commercial Banking

(dollars in millions)	As of and for the Three Months Ended September 30,				As of and for the Nine Months Ended September 30,				
	2017	2016	Change	Percent	2017	2016	Change	Percent	
Net interest income	\$354	\$327	\$27	8	% \$1,044	\$941	\$103	11	%
Noninterest income	136	123	13	11	400	344	56	16	
Total revenue	490	450	40	9	1,444	1,285	159	12	
Noninterest expense	195	181	14	8	577	554	23	4	
Profit before provision for credit losses	295	269	26	10	867	731	136	19	
Provision for credit losses	—	19	(19)	(100)	20	27	(7)	(26)	
Income before income tax expense	295	250	45	18	847	704	143	20	
Income tax expense	94	88	6	7	279	245	34	14	
Net income	\$201	\$162	\$39	24	\$568	\$459	\$109	24	
Loans and leases (period-end) ⁽¹⁾	\$49,313	\$46,292	\$3,021	7	\$49,313	\$46,292	\$3,021	7	
Average Balances:									
Total assets	\$49,833	\$47,902	\$1,931	4	% \$49,604	\$46,869	\$2,735	6	%
Total loans and leases ⁽¹⁾	48,746	46,611	2,135	5	48,560	45,532	3,028	7	
Deposits	30,751	27,847	2,904	10	29,496	25,938	3,558	14	
Interest-earning assets	48,875	46,666	2,209	5	48,696	45,611	3,085	7	
Key Performance Metrics:									
Net interest margin ⁽²⁾	2.88	% 2.79	% 9	bps	2.87	% 2.76	% 11	bps	
Efficiency ratio	39.39	40.21	(82)	) bps	39.89	43.15	(326)	) bps	
Average loans to average deposits ratio ⁽¹⁾	158.52	167.38	(886)	) bps	164.63	175.54	(1,091)	) bps	
Return on average total tangible assets ⁽²⁾	1.60	1.35	25	bps	1.53	1.31	22	bps	
Return on average tangible common equity ^{(2) (3)}	14.06	12.50	156	bps	13.54	12.27	127	bps	

- (1) Includes loans held for sale.
- (2) Ratios for the periods ended September 30, 2017 and 2016 are presented on an annualized basis.
- (3) 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 \$201 million increased \$39 million, or 24%, from \$162 million in third quarter 2016, driven by a \$40 million increase in total revenue and a \$19 million decrease in provision for credit losses, partially offset by a \$14 million increase in noninterest expense. Net interest income of \$354 million increased \$27 million, or 8%, from \$327 million in third quarter 2016, driven by 5% average loan growth and improved loan yields, partially offset by higher deposit costs.

Average loans and leases increased \$2.1 billion from third quarter 2016, driven by growth in Middle Market, Commercial Real Estate, Corporate Finance, Franchise and Mid-corporate with good momentum from geographic expansion initiatives, partially offset by the impact of the third quarter 2016 transfer of \$1.2 billion of loans and leases to non-core.

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

Noninterest income of \$136 million increased \$13 million, or 11%, from \$123 million in third quarter 2016 that included a \$4 million reduction tied to lease impairments, reflecting strength in capital markets, letter of credit and loan fees and card fees. Noninterest expense of \$195 million increased \$14 million, or 8%, from \$181 million in third quarter 2016, reflecting higher salaries and benefits, amortization of software, credit costs and outside services expense, partially offset by lower depreciation expense tied to the third quarter transfer of the aircraft portfolio to non-core. Provision for credit losses decreased \$19 million from higher third quarter 2016 levels that reflected higher net charge-offs in the energy portfolio.

Commercial Banking net income of \$568 million increased \$109 million, or 24%, from \$459 million in the first nine months of 2016, as the benefit of a \$159 million increase in total revenue and a \$7 million decrease in provision for credit losses was partially offset by a \$23 million increase in noninterest expense. Net interest income of \$1.0 billion increased \$103 million, or 11%, from \$941 million in the first nine months of 2016, reflecting a \$3.0 billion increase in average loans and leases, improved loan and deposit spreads, and a \$3.6 billion increase in average deposits. Noninterest income of \$400 million increased \$56 million, or 16%, from \$344 million in the first nine months of 2016, reflecting strength in capital markets, letter of credit and loan fees and foreign exchange and interest rate products, partially offset by a \$4 million impact related to finance lease impairments. Noninterest expense of \$577 million increased \$23 million, or 4%, from \$554 million in the first nine months of 2016, largely driven by higher salaries and employee benefits, FDIC expense, software amortization and equipment expense, partially offset by a reduction in outside services. Provision for credit losses of \$20 million decreased \$7 million from the first nine months of 2016, driven by higher net charge-offs in 2016.

Other

(in millions)	As of and for the Three Months Ended September 30,				As of and for the Nine Months Ended September 30,					
	2017	2016	Change	Percent	2017	2016	Change	Percent		
Net interest income	\$34	(\$3)	\$37	NM	\$80	\$27	\$53	196	%	
Noninterest income	18	83	(65)	(78)	54	120	(66)	(55)		
Total revenue	52	80	(28)	(35)	134	147	(13)	(9)		
Noninterest expense	15	36	(21)	(58)	60	53	7	13		
Profit before provision for credit losses	37	44	(7)	(16)	74	94	(20)	(21)		
Provision for credit losses	7	10	(3)	(30)	29	71	(42)	(59)		
Income before income tax expense (benefit)	30	34	(4)	(12)	45	23	22	96		
Income tax expense (benefit)	5	(9)	14	156	(38)	(28)	(10)	(36)		
Net income	\$25	\$43	(\$18)	(42)	\$83	\$51	\$32	63		
Loans and leases (period-end) ⁽¹⁾	\$2,851	\$3,471	(\$620)	(18)	\$2,851	\$3,471	(\$620)	(18)		
Average Balances:										
Total assets	\$40,167	\$39,808	\$359	1	% \$40,649	\$39,101	\$1,548	4	%	
Total loans and leases ⁽¹⁾	2,796	2,592	204	8	3,017	2,874	143	5		
Deposits	7,111	6,658	453	7	6,967	6,647	320	5		
Interest-earning assets	29,875	29,580	295	1	30,441	28,965	1,476	5		

⁽¹⁾ Includes loans held for sale.

Other net income of \$25 million decreased \$18 million from third quarter 2016. Net interest income increased \$37 million, driven by higher residual funds transfer pricing and higher investment portfolio income, partially offset by higher funding costs. Noninterest income decreased \$65 million, reflecting the \$67 million net impact of notable items recorded in third quarter 2016. Noninterest expense decreased \$21 million from third quarter 2016, which reflected the impact of other notable items, partially offset by higher legacy home equity operational expense. Provision for credit

losses decreased \$3 million, reflecting lower non-core net charge-offs that were partially offset by a higher reserve build in third quarter 2017 versus third quarter 2016.

Other net income of \$83 million increased from \$51 million in the first nine months of 2016, driven by a \$23 million benefit related to settlement of state tax matters in first quarter 2017 as well as a \$19 million after-tax impact related to third quarter 2016 notable items. Results also reflect an increase of \$53 million in net interest income and lower net charge-offs and a reserve build of \$11 million in the first nine months of 2017, compared to a reserve build of \$36 million in the first nine months of 2016.

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

ANALYSIS OF FINANCIAL CONDITION

Securities

Our securities portfolio is managed to maintain prudent levels of liquidity, credit quality and market risk while achieving appropriate returns. The following table presents our securities AFS and HTM:

(in millions)	September 30, 2017		December 31, 2016		Change in Fair Value	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value		
Securities Available for Sale:						
U.S. Treasury and other	\$12	\$12	\$30	\$30	(\$18)	(60 %)
State and political subdivisions	7	7	8	8	(1)	(13 %)
Mortgage-backed securities:						
Federal agencies and U.S. government sponsored entities	19,735	19,628	19,231	19,045	583	3
Other/non-agency	337	335	427	401	(66)	(16 %)
Total mortgage-backed securities	20,072	19,963	19,658	19,446	517	3
Total debt securities	20,091	19,982	19,696	19,484	498	3
Marketable equity securities	—	—	5	5	(5)	(100)
Other equity securities	—	—	12	12	(12)	(100)
Total equity securities	—	—	17	17	(17)	(100)
Total securities available for sale	\$20,091	\$19,982	\$19,713	\$19,501	\$481	2 %
Securities Held to Maturity:						
Mortgage-backed securities:						
Federal agencies and U.S. government sponsored entities	\$3,966	\$3,956	\$4,126	\$4,094	(\$138)	(3 %)
Other/non-agency	857	883	945	964	(81)	(8 %)
Total securities held to maturity	\$4,823	\$4,839	\$5,071	\$5,058	(\$219)	(4 %)
Total securities available for sale and held to maturity	\$24,914	\$24,821	\$24,784	\$24,559	\$262	1 %

As of September 30, 2017, the fair value of the AFS and HTM securities portfolio increased \$262 million to \$24.8 billion, compared with \$24.6 billion as of December 31, 2016, primarily due to net purchases of \$130 million on an amortized cost basis and a decline in interest rates over the period.

As of September 30, 2017, our securities portfolio's average effective duration was 3.8 years compared with 4.3 years as of December 31, 2016, given lower long-term rates that drove an increase in securities' prepayment speeds. We manage the securities portfolio duration and convexity risk through asset selection and securities structure, and maintain duration levels within our risk appetite in the context of the broader Interest Rate Risk in the Banking Book framework and limits.

The securities portfolio includes high-quality, highly-liquid investments reflecting our ongoing commitment to maintaining appropriate contingent liquidity levels and pledging capacity. U.S. government-guaranteed notes and government-sponsored entity-issued mortgage-backed securities represent the vast majority of the securities portfolio holdings. The portfolio composition is also dominated by holdings backed by mortgages to facilitate our ability to pledge them to the FHLBs. This has become increasingly important due to the enhanced liquidity requirements of the liquidity coverage ratio and the liquidity stress test. For further discussion of the liquidity coverage ratios, see "Regulation and Supervision — Liquidity Standards" in Part I — Business, included in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

Loans and Leases

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, education, credit cards and other retail. Our SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others, which we now service a portion of internally. The following table shows the composition of loans and leases, including non-core loans, as of:

(in millions)	September 30, 2017	December 31, 2016	Change	Percent
Commercial	\$37,706	\$37,274	\$432	1 %
Commercial real estate	11,426	10,624	802	8
Leases	3,249	3,753	(504)	(13)
Total commercial	52,381	51,651	730	1
Residential mortgages	16,619	15,115	1,504	10
Home equity loans	1,483	1,858	(375)	(20)
Home equity lines of credit	13,555	14,100	(545)	(4)
Home equity loans serviced by others	599	750	(151)	(20)
Home equity lines of credit serviced by others	166	219	(53)	(24)
Automobile	13,311	13,938	(627)	(4)
Education ⁽¹⁾	8,014	6,610	1,404	21
Credit cards	1,754	1,691	63	4
Other retail	2,269	1,737	532	31
Total retail	57,770	56,018	1,752	3
Total loans and leases ⁽²⁾⁽³⁾	\$110,151	\$107,669	\$2,482	2 %

⁽¹⁾ During first quarter 2017, student loans were renamed "education" loans. For further information see Note 1 "Basis of Presentation" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

⁽²⁾ Excluded from the table above are loans held for sale totaling \$1.2 billion and \$625 million as of September 30, 2017 and December 31, 2016, respectively.

⁽³⁾ Mortgage loans serviced for others by our subsidiaries are not included above, and amounted to \$17.7 billion and \$17.3 billion at September 30, 2017 and December 31, 2016, respectively.

Total loans and leases of \$110.2 billion as of September 30, 2017 increased \$2.5 billion from \$107.7 billion as of December 31, 2016, reflecting growth in both commercial and retail products. Total commercial loans and leases of \$52.4 billion increased \$730 million from \$51.7 billion as of December 31, 2016, reflecting commercial real estate loan growth of \$802 million and commercial loan growth of \$432 million, partially offset by a decline in leases. The change in commercial loans also reflects the impact of the second quarter 2017 sale of \$596 million of lower-return, non-strategic commercial loans and leases associated with balance sheet optimization initiatives. Total retail loans of \$57.8 billion increased by \$1.8 billion from \$56.0 billion as of December 31, 2016, largely driven by a \$1.5 billion increase in residential mortgage loans and a \$1.4 billion increase in education loans, partially offset by lower home equity balances and auto loans.

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

Non-Core Assets

The table below presents the composition of our non-core assets:

(in millions)	September 30, 2017	December 31, 2016	Change	Percent
Commercial	\$74	\$144	(\$70)	(49 %)
Commercial real estate	25	59	(34)	(58)
Leases	771	874	(103)	(12)
Total commercial	870	1,077	(207)	(19)
Residential mortgages	149	173	(24)	(14)
Home equity loans	29	45	(16)	(36)
Home equity lines of credit	32	50	(18)	(36)
Home equity loans serviced by others	599	750	(151)	(20)
Home equity lines of credit serviced by others	166	219	(53)	(24)
Education	264	291	(27)	(9)
Total retail	1,239	1,528	(289)	(19)
Total non-core loans	2,109	2,605	(496)	(19)
Other assets	129	155	(26)	(17)
Total non-core assets	\$2,238	\$2,760	(\$522)	(19 %)

Non-core assets are primarily liquidating loan and lease portfolios inconsistent with our strategic priorities, generally as a result of geographic location, industry, product type or risk level and are included in Other. Non-core assets of \$2.2 billion as of September 30, 2017 decreased \$522 million, or 19%, from December 31, 2016.

Retail non-core loan balances of \$1.2 billion decreased \$289 million, or 19%, compared to December 31, 2016. The largest component of our retail non-core portfolio is the home equity SBO portfolio, which totaled \$765 million as of September 30, 2017, compared to \$969 million as of December 31, 2016. The SBO portfolio represented 2% of the retail real estate secured portfolio and approximately 1% of the overall retail loan portfolio as of September 30, 2017. The SBO portfolio consists 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 \$400 million and \$505 million as of September 30, 2017 and December 31, 2016, respectively.

The credit profile of the SBO portfolio reflected a weighted-average refreshed FICO score of 710 and CLTV of 85% as of September 30, 2017. The proportion of the portfolio in a second lien position was 97%, with 70% of the portfolio in out-of-footprint geographies. SBO net charge-offs were in a net recovery position of \$3 million for the three months ended September 30, 2017, which was an improvement of \$8 million from a \$5 million net charge-off position for the three months ended September 30, 2016, driven by continued portfolio seasoning, recoveries of previously charged off loans and balance liquidation. SBO net charge-offs were in a net recovery position of \$3 million for the nine months ended September 30, 2017, which was an improvement of \$22 million from a \$19 million net charge-off position for the nine months ended September 30, 2016, driven by continued portfolio seasoning, recoveries from aged charge-offs and balance liquidation.

Commercial non-core loan and lease balances of \$870 million decreased \$207 million, or 19%, from \$1.1 billion as of December 31, 2016. The largest component of our commercial non-core portfolio is an aircraft-related loan and lease portfolio tied to legacy-Royal Bank of Scotland Group aircraft leasing borrowers, which totaled \$771 million as of September 30, 2017 and \$917 million as of December 31, 2016.

Allowance for Credit Losses and Nonperforming Assets

The allowance for credit losses, which consists of an ALLL and a reserve for unfunded lending commitments, is created through charges to the provision for credit losses in order to provide appropriate reserves to absorb future estimated credit losses 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” and Note 1 “Significant

Accounting Policies” to the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2016 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 in this report.

40

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

The allowance for credit losses totaled \$1.3 billion at September 30, 2017 and December 31, 2016. The ALLL represented 1.11% of total loans and leases and 131% of nonperforming loans and leases as of September 30, 2017 compared with 1.15% and 118%, respectively, as of December 31, 2016. There were no material changes in assumptions or estimation techniques compared with prior periods that impacted the determination of the current period's reserves. However, the allowance for credit losses increased slightly during third quarter 2017 and included the estimated impact of Hurricanes Harvey and Irma on retail and commercial loans.

Overall credit quality remained strong, reflecting growth in higher-quality, lower-risk retail loans and broadly stable risk appetite in commercial portfolios. Nonperforming loans and leases of \$932 million as of September 30, 2017 decreased \$113 million from December 31, 2016 driven by a \$62 million decrease in commercial nonperforming loans, mainly due to a reduction in commodities-related credits, and a \$51 million decrease in retail nonperforming loans which was comprised of a \$67 million decrease in real estate secured categories, partially offset by a \$16 million increase in auto. Net charge-offs of \$227 million for the nine months ended September 30, 2017 decreased \$4 million, or 2%, from \$231 million for the nine months ended September 30, 2016. Annualized net charge-offs as a percentage of total average loans of 0.28% for the nine months ended September 30, 2017 was down slightly by two basis points compared to the nine months ended September 30, 2016.

Commercial Loan Asset Quality

Our commercial loan and lease portfolio consists of traditional commercial loans and commercial real estate loans and leases. The portfolio is predominantly focused on customers in our footprint and adjacent states in which we have a physical presence where our local delivery model provides for strong client connectivity. Additionally, 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 in Part I, Item 1 — Financial Statements, included in this report.

As of September 30, 2017, nonperforming commercial loans and leases of \$325 million decreased \$62 million from \$387 million as of December 31, 2016, largely driven by decreases in commodities-related credits and commercial real estate. As of September 30, 2017, total commercial nonperforming loans were 0.6% of the commercial loan portfolio, compared to 0.7% as of December 31, 2016. There were no commercial loan and lease portfolio net charge-offs for the three months ended September 30, 2017 and \$33 million for the nine months ended September 30, 2017, compared to net charge-offs of \$19 million and \$30 million for the three and nine months ended September 30, 2016, respectively. The commercial loan and lease portfolio's annualized net charge-off rate of one and nine basis points for the three and nine months ended September 30, 2017, respectively, compared to 15 and eight basis points for the three and nine months ended September 30, 2016, respectively.

Total commercial criticized loans and leases portfolio of \$3.2 billion, or 6.1% of the portfolio, compared to \$2.9 billion, or 5.6%, at December 31, 2016. Commercial criticized balances were \$2.4 billion, or 6.4% of commercial loans as of September 30, 2017, compared to \$2.3 billion, or 6.1%, as of December 31, 2016. Commercial real estate criticized balances of \$689 million, or 6.0% of the commercial real estate portfolio, compared to \$478 million, or 4.5%, as of December 31, 2016. The increase in commercial real estate criticized balances was primarily driven by multi-family, with additional increases in retail and office property types. Commercial criticized loans to total criticized loans was 75% as of September 30, 2017 down slightly compared to 78% as of December 31, 2016. Commercial real estate accounted for 22% of total criticized loans as of September 30, 2017, compared to 16% as of December 31, 2016.

Retail Loan Asset Quality

For retail loans, we primarily utilize payment and delinquency status to regularly review and monitor credit quality trends. Historical experience indicates that the longer a loan is past due, the greater the likelihood of future credit loss. The largest portion of the retail portfolio is represented by borrowers located in the New England, Mid-Atlantic and Midwest regions, although we have continued to grow selectively in areas outside the footprint primarily in the auto

finance, education lending and unsecured portfolios.

The credit composition of our retail loan portfolio at September 30, 2017 reflected an average refreshed FICO score of 761, which was slightly improved compared to 759 as of December 31, 2016. The real estate secured portfolio CLTV ratio is calculated as the mortgage and second lien loan balance divided by the most recently available

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

value of the property and was 60% as of September 30, 2017 and 62% as of December 31, 2016. Retail asset quality continued to improve with an annualized net charge-off rate of 0.44% and 0.46% for the three and nine months ended September 30, 2017, respectively, compared to 0.47% and 0.50% for the three and nine months ended September 30, 2016, respectively, driven by improving asset quality and a shift in the portfolio mix. Nonperforming retail loans as a percentage of total retail loans were 1.05% as of September 30, 2017, a decrease of 12 basis points from December 31, 2016.

HELOC Payment Shock

We monitor 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. Industry wide, 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. To help manage this potential 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. Results of this program 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 September 30, 2017, for the \$1.7 billion of our HELOC portfolio that reached the end of the interest-only draw period and entered repayment of principal and interest during 2014 and 2015, 94% of the balances had been refinanced, paid off or were current on payments, 3% were past due and 3% had been charged off. As of September 30, 2017, for the \$738 million of our HELOC portfolio that reached the end of the interest-only draw period and entered repayment of principal and interest in 2016, 95% of the balances had been refinanced, paid off or were current on payments, 3% were past due and 2% had been charged off.

As of September 30, 2017, a total of \$241 million of HELOC balances are scheduled to reach the end of the interest-only draw period and enter repayment of principal and interest for the remainder of 2017. For the \$3.7 billion HELOC portfolio scheduled to reach the end of the interest-only draw period and enter repayment of principal and interest between October 1, 2017 and December 31, 2021, 48% was secured by a first lien, with a weighted average FICO score of the borrowers of 763 and a LTV ratio of 57%. Those results compare to the total HELOC portfolio of \$13.7 billion that was 51% secured by a first lien, with a weighted average FICO score of the borrowers of 768 and a LTV ratio of 59%. Factors that affect our future expectations for continued relatively low charge-off risk in the face of rising interest rates for the portion of our HELOC portfolio subject to reset in future periods include a relatively high level of first lien collateral positions, improved loan-to-value ratios resulting from continued home price appreciation, relatively stable portfolio credit score profiles and continued robust loss mitigation efforts.

Troubled Debt Restructurings

TDR is the classification given to a loan that has been restructured in a manner that grants a concession to a borrower 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 our lending policy. Depending on the specific facts and circumstances of the customer, restructuring can involve loans moving to nonaccrual, remaining on nonaccrual, or remaining on accrual status.

As of September 30, 2017, \$759 million of retail loans were classified as TDRs, compared with \$799 million as of December 31, 2016. The decrease was, in part, attributable to \$78 million of TDRs classified as held for sale as of September 30, 2017. As of September 30, 2017, \$221 million of retail TDRs were in nonaccrual status with 58% current with payments, an improvement compared to \$233 million in nonaccrual status with 55% current on payments at December 31, 2016. TDRs generally return to accrual status once repayment capacity and appropriate payment history can be established. TDRs are individually evaluated for impairment and loans, once classified as TDRs, remain classified as TDRs until paid off, sold or refinanced at market terms.

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

For additional information regarding TDRs, see “—Critical Accounting Estimates — Allowance for Credit Losses,” and Note 1 “Significant Accounting Policies” to the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2016 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 in this report.

The following tables present an aging of our retail TDRs:

(in millions)	September 30, 2017				Total
	Current	30-59	60-89	90+	
		Days Past Due	Days Past Due	Days Past Due	
Recorded Investment:					
Residential mortgages	\$92	\$2	\$5	\$41	\$140
Home equity loans	102	2	3	18	125
Home equity lines of credit	167	4	3	23	197
Home equity loans serviced by others	45	2	—	3	50
Home equity lines of credit serviced by others	7	—	—	2	9
Automobile	20	1	1	1	23
Education	168	5	3	3	179
Credit cards	23	1	1	1	26
Other retail	8	1	1	—	10
Total	\$632	\$18	\$17	\$92	\$759

(in millions)	December 31, 2016				Total
	Current	30-59	60-89	90+	
		Days Past Due	Days Past Due	Days Past Due	
Recorded Investment:					
Residential mortgages	\$115	\$12	\$5	\$46	\$178
Home equity loans	116	8	3	18	145
Home equity lines of credit	164	7	4	21	196
Home equity loans serviced by others	53	3	1	3	60
Home equity lines of credit serviced by others	6	—	—	3	9
Automobile	17	1	1	—	19
Education	148	3	2	2	155
Credit cards	23	1	1	1	26
Other retail	11	—	—	—	11
Total	\$653	\$35	\$17	\$94	\$799

The following tables present the accrual status of our retail TDRs:

(in millions)	September 30, 2017		
	Accruing	Nonaccruing	Total
Recorded Investment:			
Residential mortgages	\$84	\$56	\$140
Home equity loans	88	37	125
Home equity lines of credit	123	74	197
Home equity loans serviced by others	37	13	50

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

Home equity lines of credit serviced by others	4	5	9
Automobile	13	10	23
Education	155	24	179
Credit cards	25	1	26
Other retail	9	1	10
Total	\$538	\$221	\$759

43

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

(in millions)	December 31, 2016		
	Accruing	Nonaccruing	Total
Recorded Investment:			
Residential mortgages	\$117	\$61	\$178
Home equity loans	102	43	145
Home equity lines of credit	126	70	196
Home equity loans serviced by others	43	17	60
Home equity lines of credit serviced by others	4	5	9
Automobile	10	9	19
Education	128	27	155
Credit cards	25	1	26
Other retail	11	—	11
Total	\$566	\$233	\$799

Derivatives

We use pay-fixed swaps to hedge floating rate wholesale funding and to offset duration in fixed-rate assets. Notional balances on wholesale funding hedges totaled \$4.0 billion as of September 30, 2017 and \$3.0 billion as of December 31, 2016, respectively. Pay-fixed rates on the swaps ranged from 0.91% to 1.98% as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017, \$1.0 billion were forward starting positions which begin accruing interest in January 2018.

We use receive-fixed swaps to minimize the exposure to variability in the interest cash flows on our floating-rate assets, and to hedge market risk on fixed-rate capital markets debt issuances. At September 30, 2017 and December 31, 2016, the notional amount of receive-fixed swap hedges totaled \$13.3 billion and \$10.4 billion, respectively. As of September 30, 2017 and December 31, 2016, the fixed-rate ranges were 0.92% to 1.87% and 0.88% to 1.84%, respectively. We paid one-month and three-month LIBOR on these swaps.

In third quarter 2017, CBPA added \$1.0 billion of interest rate swaps to hedge its exposure to declining interest rates. This was accomplished through the establishment of \$500 million of 1.5-year receive-fixed swaps and \$500 million 2-year receive-fixed swaps on floating-rate commercial loans. CBNA also terminated \$500 million of 3.9-year receive-fixed swaps hedging floating-rate commercial loans. This activity in the quarter resulted in our net additional hedge position of \$500 million related to floating-rate commercial loans.

We also sell interest rate swaps and foreign exchange forwards to commercial customers. Interest rate and foreign exchange derivative contracts are transacted to effectively minimize our market risk associated with the customer derivative contracts.

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

The table below presents our derivative assets and liabilities. The assets and liabilities recorded for derivatives on our Consolidated Balance Sheets reflect the market value of these transactions. For additional information regarding our derivative instruments, see Note 10 "Derivatives" in our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

(in millions)	September 30, 2017			December 31, 2016		
	Notional Amount	Derivative Assets ⁽²⁾	Derivative Liabilities ⁽²⁾	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate contracts	\$17,300	\$6	\$—	\$13,350	\$52	\$193
Derivatives not designated as hedging instruments:						
Interest rate contracts	69,436	502	338	54,656	557	452
Foreign exchange contracts	10,147	146	142	8,039	134	126
Other contracts	1,256	10	5	1,498	16	7
Total derivatives not designated as hedging instruments		658	485		707	585
Gross derivative fair values		664	485		759	778
Less: Gross amounts offset in the Consolidated Balance Sheets ⁽³⁾		(65)	(65)		(106)	(106)
Less: Cash collateral applied ⁽³⁾		(3)	(178)		(26)	(13)
Total net derivative fair values presented in the Consolidated Balance Sheets		\$596	\$242		\$627	\$659

⁽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 do not measure the true economic risk of these contracts.

⁽²⁾ Amounts reflect changes in the treatment of variation margin on certain centrally cleared derivatives.

⁽³⁾ Amounts represent the impact of legally enforceable master netting agreements that allow us to settle positive and negative positions.

At September 30, 2017, the overall derivative asset value decreased \$31 million and the liability balance decreased by \$417 million from December 31, 2016. These decreases were primarily due to a change in the presentation of variation margin payments in the Consolidated Balance Sheets in 2017. Effective January 3, 2017, variation margin payments made on certain centrally cleared derivative contracts are legally classified as settlement of those derivatives (rather than the posting of collateral). As a result of this change, we modified our balance sheet presentation of certain interest rate swaps in 2017, such that the fair value of the swaps and the associated variation margin balances are reported as a single unit of account in derivative assets and/or derivative liabilities. At December 31, 2016, these variation margin balances were characterized as collateral. Variation margin balances legally characterized as collateral are reported in interest-bearing cash and due from banks on the Consolidated Balance Sheets.

Deposits

The table below presents the major components of our deposits:

(in millions)	September 30, 2017	December 31, 2016	Change	Percent
Demand	\$28,643	\$28,472	\$171	1 %
Checking with interest	21,756	20,714	1,042	5
Regular savings	9,470	8,964	506	6
Money market accounts	37,070	38,176	(1,106)	(3)
Term deposits	16,296	13,478	2,818	21
Total deposits	\$113,235	\$109,804	\$3,431	3 %

Total deposits as of September 30, 2017 increased \$3.4 billion, or 3%, to \$113.2 billion, compared to \$109.8 billion as of December 31, 2016, as growth across term deposits, checking with interest, regular savings and demand deposits was partially offset by a decrease in money market products.

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

Borrowed Funds

Short-term borrowed funds

A summary of our short-term borrowed funds is presented below:

(in millions)	September 30, 2017	December 31, 2016	Change	Percent
Federal funds purchased	\$—	\$533	(\$533)	(100 %)
Securities sold under agreements to repurchase	453	615	(162)	(26 %)
Other short-term borrowed funds	1,505	3,211	(1,706)	(53 %)
Total short-term borrowed funds	\$1,958	\$4,359	(\$2,401)	(55 %)

Short-term borrowed funds of \$2.0 billion decreased \$2.4 billion from December 31, 2016, reflecting a \$1.7 billion decline in other short-term borrowed funds (primarily short-term FHLB advances), a \$533 million decrease in Fed funds purchased, and a \$162 million decrease in securities sold under agreements to repurchase.

As of September 30, 2017, our total contingent liquidity was \$27.7 billion, consisting of \$20.3 billion in unencumbered high-quality and liquid securities, \$6.1 billion in unused FHLB borrowing capacity, and \$1.3 billion in cash at the FRB. Asset liquidity, a component of contingent liquidity, was \$21.6 billion, consisting of cash at the FRB and unencumbered high-quality liquid securities assets. Additionally, \$12.7 billion in secured discount window capacity from the FRBs created total available liquidity of approximately \$40.4 billion.

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

(dollars in millions)	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,		As of and for the Year Ended December 31, 2016
	2017	2016	2017	2016	
Weighted-average interest rate at period-end: ⁽¹⁾					
Federal funds purchased and securities sold under agreements to repurchase	— %	0.03 %	— %	0.03 %	0.26 %
Other short-term borrowed funds (primarily short-term FHLB advances)	1.47	0.63	1.47	0.63	0.94
Maximum amount outstanding at month-end during the period:					
Federal funds purchased and securities sold under agreements to repurchase ⁽²⁾	\$724	\$1,032	\$1,174	\$1,274	\$1,522
Other short-term borrowed funds (primarily short-term FHLB advances)	1,755	2,515	3,508	4,764	5,461
Average amount outstanding during the period:					
Federal funds purchased and securities sold under agreements to repurchase ⁽²⁾	\$733	\$910	\$807	\$922	\$947
Other short-term borrowed funds (primarily short-term FHLB advances)	1,624	2,564	2,283	3,133	3,207
Weighted-average interest rate during the period: ⁽¹⁾					
Federal funds purchased and securities sold under agreements to repurchase	0.47 %	0.10 %	0.34 %	0.09 %	0.09 %
Other short-term borrowed funds (primarily short-term FHLB advances)	1.48	0.63	1.22	0.62	0.64

⁽¹⁾ Rates exclude certain hedging costs.

⁽²⁾ Balances are net of certain short-term receivables associated with reverse repurchase agreements, as applicable.

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

Long-term borrowed funds

A summary of our long-term borrowed funds is presented below:

(in millions)	September 30, 2017	December 31, 2016
Parent Company:		
4.150% fixed-rate subordinated debt, due 2022	\$348	\$347
5.158% fixed-to-floating rate subordinated debt, due 2023, converting to floating at 3-month LIBOR + 3.56% and callable beginning June 2018	333	333
3.750% fixed-rate subordinated debt, due 2024	250	250
4.023% fixed-rate subordinated debt, due 2024	42	42
4.350% fixed-rate subordinated debt, due 2025	249	249
4.300% fixed-rate subordinated debt, due 2025	749	749
2.375% fixed-rate senior unsecured debt, due 2021	348	348
Banking Subsidiaries:		
2.300% senior unsecured notes, due 2018 ⁽¹⁾	746	745
2.450% senior unsecured notes, due 2019 ⁽¹⁾	747	747
2.500% senior unsecured notes, due 2019 ⁽¹⁾	743	741
2.250% senior unsecured notes, due 2020 ⁽¹⁾	697	—
Floating-rate senior unsecured notes, due 2020 ⁽¹⁾	299	—
Floating-rate senior unsecured notes, due 2020 ⁽¹⁾	249	—
2.200% senior unsecured notes, due 2020 ⁽¹⁾	498	—
2.550% senior unsecured notes, due 2021 ⁽¹⁾	973	965

Floating-rate senior unsecured notes, due 2022 ⁽¹⁾	249	—
2.650% senior unsecured notes, due 2022 ⁽¹⁾	496	—
Federal Home Loan advances due through 2033	5,361	7,264
Other	23	10
Total long-term borrowed funds	\$13,400	\$12,790

⁽¹⁾ Issued under CBNA's Global Bank Note Program.

The Parent Company's long-term borrowed funds as of September 30, 2017 and December 31, 2016 included principal balances of \$2.3 billion and unamortized deferred issuance costs and/or discounts of (\$6) million and (\$7) million, respectively. The banking subsidiaries' long-term borrowed funds as of September 30, 2017 and December 31, 2016 include principal balances of \$11.1 billion and \$10.5 billion, respectively, with unamortized deferred issuance costs and/or discounts of (\$17) million and (\$12) million, respectively, and hedging basis adjustments of (\$36) million and (\$40) million, respectively. See Note 10 "Derivatives" for further information about our hedging of certain long-term borrowed funds.

From an external issuance perspective, on February 24, 2017, we increased the size of CBNA's Global Note Program from \$5.0 billion to \$8.0 billion. On March 2, 2017, CBNA issued \$1.0 billion in three-year, senior bank debt, composed of \$700 million in fixed-rate notes and \$300 million in floating-rate notes indexed to 3-month LIBOR. On May 26, 2017, CBNA issued \$1.5 billion in senior notes, consisting of \$500 million of three-year fixed-rate notes, \$250 million of three-year floating-rate notes, \$500 million in five-year fixed-rate notes, and \$250 million in five-year floating-rate notes. We also established a \$500 million fair value hedge using a receive-fixed interest rate swap against the \$500 million five-year fixed-rate senior debt, related to CBNA's \$1.5 billion senior note issuance in May 2017. Long-term borrowed funds of \$13.4 billion as of September 30, 2017 increased \$610 million from December 31, 2016, reflecting a \$2.5 billion increase in senior bank debt, offset by a decrease of \$1.9 billion in long-term FHLB borrowings. Access to additional funding through repurchase agreements, collateralized borrowed funds or asset sales continues to be available. Additionally, capacity remains to grow deposits or issue senior or subordinated notes.

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

CAPITAL AND REGULATORY MATTERS

As a bank holding company and a financial holding company, we are subject to regulation and supervision by the FRB. 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, its primary federal regulator. Our regulation and supervision continues to evolve as the legal and regulatory framework governing our operations continue to change. The current operating environment reflects heightened regulatory expectations around many regulations including consumer compliance, the Bank Secrecy Act, anti-money laundering compliance, and increased internal audit activities. For more information, 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, 2016.

Dodd-Frank regulation

Under the Dodd-Frank requirements, we must submit our annual capital plan and the results of our annual company-run stress tests to the FRB by April 5th of each year and disclose certain results within 15 days after the FRB discloses the results of its supervisory-run tests. On June 28, 2017, the FRB informed us that it did not object to our 2017 Capital Plan or to our proposed capital actions for the period beginning July 1, 2017 and ending June 30, 2018. Our 2017 Capital Plan includes quarterly common dividends of \$0.18 per share through the end of 2017, the potential to raise the quarterly common dividend to \$0.22 per share in 2018, and a share repurchase plan through the second quarter of 2018. The timing and exact amount of future dividends and share repurchases will depend on various factors, including capital position, financial performance and market conditions. On June 22, 2017, we published estimated DFAST results under the supervisory severely adverse scenario on our regulatory filings and disclosures page on our Investor Relations website at <http://investor.citizensbank.com>.

The Dodd-Frank Act also requires each of our bank subsidiaries to conduct stress tests on an annual basis and to disclose the stress test results. CBNA submitted its 2017 annual stress tests to the OCC on April 5, 2017 and published a summary of those results along with the stress test results of the Parent Company on June 22, 2017 on our Investor Relations website referenced above. CBPA submitted the results of its 2017 annual stress tests to the FDIC on July 31, 2017 and published its summary results as an update to the Parent Company/CBNA Dodd-Frank Act Company-Run Stress Test Disclosure on October 16, 2017 on our Investor Relations website referenced above.

Similarly, we are required to submit the results of our mid-cycle company-run DFAST stress tests by October 5th of each year and disclose the summary results of our internally developed stress tests under the severely adverse scenario between October 5th and November 4th. We submitted the results of our 2017 mid-cycle stress test to the FRB on October 3, 2017 and disclosed a summary of the results on October 5, 2017. We publish these company-run estimated impacts of stress on our regulatory filings and disclosures page on our Investor Relations website referenced above.

Capital Framework

Under the U.S. Basel III capital framework, we and our banking subsidiaries must meet specific minimum requirements for the following ratios: common equity tier 1 capital, tier 1 capital, total capital, and tier 1 leverage. The U.S. adoption of the Basel III Standardized approach by the Federal bank regulators became effective for CFG, CBNA and CBPA, on January 1, 2015 subject to a phase-in period extending through January 2019 (the "U.S. Basel III Standardized Transitional rules"). Among other changes, these regulations introduced a new capital conservation buffer ("CCB") on top of the following three minimum risk-based capital ratios: CET1 capital of 4.5%, tier 1 capital of 6.0%, and total capital of 8.0%. The implementation of the CCB began on January 1, 2016 at the 0.625% level and increases by 0.625% on each subsequent January 1, until the buffer reaches its fully phased-in level of 2.5% on January 1, 2019. As such, the CCB for 2017 increased to 1.250% on January 1, 2017. Banking institutions for which any risk-based capital ratio falls below its effective minimum (required minimum plus the applicable CCB) will be subject to constraints on capital distributions, including dividends, repurchases and certain executive compensation based on the amount of the shortfall.

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

The table below presents our actual regulatory capital ratios under the U.S. Basel III Standardized Transitional rules as well as pro forma U.S. Basel III Standardized ratios after full phase-in of all requirements by January 1, 2019:

(in millions, except ratio data)	Transitional Basel III					Pro Forma Basel III Assuming Full Phase-in				
	Actual Amount	Actual Ratio	Required Minimum plus Required CCB for Non-Leverage Ratios ⁽⁶⁾⁽⁷⁾	FDIA Required Well-Capitalized Minimum for Purposes of Prompt Corrective Action ⁽⁹⁾	Required Minimum plus Required CCB for Non-Leverage Ratios ⁽⁶⁾⁽⁸⁾	FDIA Required Well-Capitalized Minimum for Purposes of Prompt Corrective Action ⁽⁹⁾	Actual Ratio ⁽¹⁾	Required Minimum plus Required CCB for Non-Leverage Ratios ⁽⁶⁾⁽⁸⁾	FDIA Required Well-Capitalized Minimum for Purposes of Prompt Corrective Action ⁽⁹⁾	
September 30, 2017										
Common equity tier 1 capital ⁽²⁾	\$14,093	11.1%	5.8%	6.5%	7.0%	11.1%	7.0%	6.5%		
Tier 1 capital ⁽³⁾	14,340	11.3	7.3	8.0	8.5	11.3	8.5	8.0		
Total capital ⁽⁴⁾	17,560	13.8	9.3	10.0	10.5	13.8	10.5	10.0		
Tier 1 leverage ⁽⁵⁾	14,340	9.9	4.0	5.0	4.0	9.9	4.0	5.0		
Risk-weighted assets	127,203									
Quarterly adjusted average assets	144,500									
December 31, 2016										
Common equity tier 1 capital ⁽²⁾	\$13,822	11.2%	5.1%	6.5%	7.0%	11.1%	7.0%	6.5%		
Tier 1 capital ⁽³⁾	14,069	11.4	6.6	8.0	8.5	11.3	8.5	8.0		
Total capital ⁽⁴⁾	17,347	14.0	8.6	10.0	10.5	14.0	10.5	10.0		
Tier 1 leverage ⁽⁵⁾	14,069	9.9	4.0	5.0	4.0	9.9	4.0	5.0		
Risk-weighted assets	123,857									
Quarterly adjusted average assets	141,677									

(1) Fully phased-in regulatory capital ratios are Key Performance Metrics. For more information on Key Performance Metrics, see “—Principal Components of Operations and Key Performance Metrics Used By Management.”

(2) “Common equity tier 1 capital ratio” is CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

(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 U.S. Basel III Standardized approach.

(4) “Total capital ratio” is total capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

(5) “Tier 1 leverage ratio” is tier 1 capital divided by quarterly average total assets as defined under U.S. Basel III Standardized approach.

(6) Required “Minimum Capital ratio” for 2016 and 2017 are: Common equity tier 1 capital of 4.5%; Tier 1 capital of 6.0%; Total capital of 8.0%; and Tier 1 leverage of 4.0%.

(7) “Minimum Capital ratio” includes capital conservation buffer for Transitional Basel III of 1.250% for 2017 and 0.625% for 2016; N/A to Tier 1 leverage.

(8) “Minimum Capital ratio” for 2016 and 2017 includes capital conservation buffer for Pro Forma Basel III of 2.5%; N/A to Tier 1 leverage.

(9) Presented for informational purposes. Prompt corrective action provisions apply only to insured depository institutions - CBNA and CBPA.

At September 30, 2017, our CET1 capital, tier 1 capital and total capital ratios were 11.1%, 11.3% and 13.8%, respectively, as compared with 11.2%, 11.4% and 14.0%, respectively, as of December 31, 2016. These capital ratios decreased due to risk-weighted asset growth and our Capital Plan actions over the period, which included common dividends of \$233 million, preferred dividends of \$14 million and the repurchase of \$485 million of our outstanding common stock, partially offset by net income for the nine months ended September 30, 2017. At September 30, 2017, our CET1 capital, tier 1 capital and total capital ratios were 4.1%, 2.8% and 3.3%, respectively, above their regulatory minimums plus the fully phased-in capital conservation buffer. Based on both current and fully phased-in Basel III requirements, all ratios remained well above the U.S. Basel III minima.

Standardized Approach

CFG, CBNA and CBPA calculate regulatory ratios using the U.S. Basel III Standardized approach, as defined by U.S. Federal bank regulators, for determining risk-weighted assets. The U.S. Basel III Standardized approach for risk weighting assets expands the risk-weighting categories from the four Basel I derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset classes. Under this approach, 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. At September 30, 2017, we estimate our CET1 capital, CET1 capital ratio and total risk-weighted assets using the U.S. Basel III Standardized approach, on a fully phased-in basis, to be \$14.1 billion, 11.1% and \$127.5 billion, respectively. Our estimates may be refined over time because of further rulemaking or clarification by U.S. banking regulators or as our understanding and interpretation of these rules evolve.

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

The following table provides a reconciliation of regulatory ratios and ratio components using the U.S. Basel III Standardized Transitional rules and U.S. Basel III Standardized estimates on a fully phased-in basis for common equity tier 1 capital, total capital and risk-weighted assets:

(in millions, except ratio data)	September 30, December	
	2017	31, 2016
Common equity tier 1 capital	\$14,093	\$13,822
Impact of intangibles at 100%	—	—
Fully phased-in common equity tier 1 capital ⁽¹⁾	\$14,093	\$13,822
Total capital	\$17,560	\$17,347
Impact of intangibles at 100%	—	—
Fully phased-in total capital ⁽¹⁾	\$17,560	\$17,347
Risk-weighted assets	\$127,203	\$123,857
Impact of intangibles - 100% capital deduction	—	—
Impact of mortgage servicing assets at 250% risk weight	251	244
Fully phased-in risk-weighted assets ⁽¹⁾	\$127,454	\$124,101
Transitional common equity tier 1 capital ratio ⁽²⁾	11.1	% 11.2 %
Fully phased-in common equity tier 1 capital ratio ⁽¹⁾⁽²⁾	11.1	11.1
Transitional total capital ratio ⁽³⁾	13.8	14.0
Fully phased-in total capital ratio ⁽¹⁾⁽³⁾	13.8	14.0

⁽¹⁾ Fully phased-in regulatory capital ratios are Key Performance Metrics. For more information on Key Performance Metrics, see “—Principal Components of Operations and Key Performance Metrics Used By Management.”

⁽²⁾ “Common equity tier 1 capital ratio” is CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

⁽³⁾ “Total capital ratio” is total capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

Regulatory Capital Ratios and Capital Composition

CET1 capital under U.S. Basel III Standardized Transitional rules totaled \$14.1 billion at September 30, 2017, and increased \$271 million from \$13.8 billion at December 31, 2016, as net income for the nine months ended September 30, 2017 was partially offset by the impact of common share repurchases and dividend payments. Tier 1 capital at September 30, 2017 totaled \$14.3 billion, reflecting a \$271 million increase from \$14.1 billion at December 31, 2016, driven by the changes in CET1 capital noted above. At September 30, 2017, we had \$247 million of 5.500% Fixed-to-Floating Non-Cumulative Perpetual Preferred Stock outstanding which qualified as additional tier 1 capital. Total capital of \$17.6 billion at September 30, 2017, increased \$213 million from December 31, 2016, as net income for the nine months ended September 30, 2017 was partially offset by the impact of common share repurchases, dividend payments over the period and a decrease of \$70 million for non-qualifying tier 2 subordinated debt. Under U.S. Basel III Standardized rules, tier 2 capital instrument eligibility is phased out by 20% per year, beginning five years from the applicable maturity date.

Risk-weighted assets (“RWA”) totaled \$127.2 billion at September 30, 2017, based on U.S. Basel III Standardized Transitional rules, up \$3.3 billion from December 31, 2016. This increase was driven by growth in retail loans, including education, residential mortgage and unsecured personal loans as well as commercial and commercial real estate loans and unfunded commercial commitment RWA. Included within the commercial real estate loan RWA increase was approximately \$700 million tied to a change in the RWA designation for certain commercial real estate loans in first quarter 2017. These increases were partially offset by the RWA impact of run-off in the auto and home equity portfolios and a reduction in market risk, as we did not meet the reporting threshold prescribed by Market Risk Capital Guidelines for the third quarter 2017. The tier 1 leverage ratio remained stable from December 31, 2016 to September 30, 2017.

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

The following table presents our capital composition under the U.S. Basel III capital framework:

(in millions)	Transitional Basel III	
	September 30, 2017	December 31, 2016
Total common stockholders' equity	\$19,862	\$19,499
Exclusions ⁽¹⁾ :		
Net unrealized losses recorded in accumulated other comprehensive income, net of tax:		
Debt and marketable equity securities available for sale	116	186
Derivatives	79	88
Unamortized net periodic benefit costs	386	394
Deductions:		
Goodwill	(6,887)	(6,876)
Deferred tax liability associated with goodwill	539	532
Other intangible assets	(2)	(1)
Total common equity tier 1	14,093	13,822
Qualifying preferred stock	247	247
Total tier 1 capital	14,340	14,069
Qualifying subordinated debt ⁽²⁾	1,901	1,970
Allowance for loan and lease losses	1,224	1,236
Allowance for credit losses for off-balance sheet exposure	95	72
Total capital	\$17,560	\$17,347

⁽¹⁾ As a U.S. 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⁾ As of September 30, 2017, the amount of non-qualifying subordinated debt excluded from regulatory capital was \$70 million.

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 to future periods. Key analytical frameworks, which enable the assessment of capital adequacy versus unexpected loss, supplement our base case forecast. These supplemental frameworks include 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 FRB and to the bank regulators. We prepare these plans in full compliance with the FRB's Capital Plan Rule and we participate annually in the FRB's CCAR review process. In addition to the stress test requirements under CCAR, we also perform semi-annual company-run stress tests required by the Dodd-Frank Act. All distributions proposed under our Capital Plan are subject to consideration and approval by our Board of Directors prior to execution. The timing and exact amount of future dividends and share repurchases will depend on various factors, including our capital position, financial performance and market conditions.

Capital Transactions

During the nine months ended September 30, 2017, we completed the following capital actions:

- Declared and paid quarterly common stock dividends of \$0.14 per share for first and second quarter 2017, and \$0.18 per share for third quarter 2017, aggregating to dividend payments of \$233 million;
-

Declared semi-annual dividends of \$27.50 per share on the 5.500% fixed-to-floating rate non-cumulative perpetual Series A Preferred Stock, aggregating to dividend payments of \$7 million on April 6, 2017 and October 6, 2017; and Repurchased \$485 million of our outstanding common stock.

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

On October 20, 2017, we announced that our Board of Directors declared a fourth quarter cash dividend of \$0.18 per common share. The dividend is payable on November 15, 2017 to shareholders of record at the close of business on November 1, 2017.

Banking Subsidiaries' Capital

The following table presents our banking subsidiaries' capital ratios under U.S. Basel III Standardized Transitional rules:

	Transitional Basel III			
	September 30, 2017		December 31, 2016	
(dollars in millions, except ratio data)	Amount	Ratio	Amount	Ratio
Citizens Bank, N.A.				
Common equity tier 1 capital ⁽¹⁾	\$11,539	11.1 %	\$11,248	11.2 %
Tier 1 capital ⁽²⁾	11,539	11.1	11,248	11.2
Total capital ⁽³⁾	13,745	13.2	13,443	13.4
Tier 1 leverage ⁽⁴⁾	11,539	10.2	11,248	10.3
Risk-weighted assets	104,165		100,491	
Quarterly adjusted average assets	113,670		109,530	
Citizens Bank of Pennsylvania				
Common equity tier 1 capital ⁽¹⁾	\$3,059	12.9 %	\$3,094	12.7 %
Tier 1 capital ⁽²⁾	3,059	12.9	3,094	12.7
Total capital ⁽³⁾	3,297	13.9	3,333	13.6
Tier 1 leverage ⁽⁴⁾	3,059	8.8	3,094	8.8
Risk-weighted assets	23,711		24,426	
Quarterly adjusted average assets	34,712		35,057	

⁽¹⁾ "Common equity tier 1 capital ratio" is CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

⁽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 U.S. Basel III Standardized approach.

⁽³⁾ "Total capital ratio" is total capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

⁽⁴⁾ "Tier 1 leverage ratio" is tier 1 capital divided by quarterly average total assets as defined under U.S. Basel III Standardized approach.

CBNA CET1 capital totaled \$11.5 billion at September 30, 2017, up \$291 million from \$11.2 billion at December 31, 2016, reflecting the impact of net income, partially offset by dividend payments. At September 30, 2017, CBNA held minimal additional tier 1 capital. Total capital was \$13.7 billion at September 30, 2017, an increase of \$302 million from \$13.4 billion at December 31, 2016, primarily driven by the increases in CET1 capital.

CBNA risk-weighted assets of \$104.2 billion at September 30, 2017 increased \$3.7 billion from December 31, 2016, driven by growth in retail loans, including residential mortgage, education and unsecured personal loans, as well as commercial and commercial real estate loans and unfunded commercial commitment RWA. Included within the commercial real estate loan RWA increase was approximately \$400 million tied to a change in the RWA designation for certain commercial real estate loans in first quarter 2017. These increases were partially offset by the RWA impact of run-off in the home equity portfolio and a reduction in market risk, as CBNA did not meet the reporting threshold prescribed by Market Risk Capital Guidelines for third quarter 2017.

As of September 30, 2017, the CBNA tier 1 leverage ratio decreased approximately 12 basis points to 10.2% from 10.3% as of December 31, 2016, driven by a \$4.1 billion increase in adjusted quarterly average total assets that drove

a 38 basis point decline in the ratio, partially offset by a 26 basis point increase from higher CET1 capital described above.

CBPA CET1 capital totaled \$3.1 billion at September 30, 2017, and decreased \$35 million from \$3.1 billion at December 31, 2016, as dividend payments exceeded net income and amortization of deferred tax related to goodwill. At September 30, 2017, there was no additional tier 1 capital. Total capital was \$3.3 billion at September 30, 2017, a decrease of \$36 million from December 31, 2016, primarily driven by the decrease in CET1 capital.

CBPA risk-weighted assets of \$23.7 billion at September 30, 2017 decreased \$715 million from December 31, 2016, driven by decreases in commercial, auto, and residential mortgage loan RWA. These decreases were offset by an increase of approximately \$300 million tied to a change of the RWA designation for certain commercial real estate loans in first quarter 2017, in addition to growth in education loan RWA.

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

As of September 30, 2017, the CBPA tier 1 leverage ratio was consistent with December 31, 2016 at 8.8%.

LIQUIDITY

Liquidity is defined as our ability to meet our cash-flow and collateral obligations in a timely manner, at a reasonable cost. An institution must maintain operating liquidity to meet its expected daily and forecasted cash-flow requirements, as well as contingent liquidity to meet unexpected (stress scenario) funding requirements. As noted earlier, reflecting the importance of meeting all unexpected and stress-scenario funding requirements, we identify and manage contingent liquidity (consisting of cash balances at the FRB, unencumbered high-quality and liquid securities, and unused FHLB borrowing capacity). Separately, we also identify and manage asset liquidity as a subset of contingent liquidity (consisting of cash balances at the FRB and unencumbered high-quality securities). 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 at the Parent Company, CBNA and CBPA.

Parent Company Liquidity

Our Parent Company's 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 senior and subordinated debt. Uses of liquidity include the following: (i) routine cash flow requirements as a bank holding company, including periodic share repurchases and payments of dividends, interest and expenses; (ii) needs of subsidiaries, including banking subsidiaries, for additional equity and, as required, their needs for debt financing; and (iii) support for extraordinary funding requirements when necessary.

During the three month periods ended September 30, 2017 and 2016, the Parent Company paid dividends on common stock of \$90 million and \$62 million, respectively, and declared dividends on preferred stock of \$7 million for both periods. During the nine month periods ended September 30, 2017 and 2016, the Parent Company paid dividends on common stock of \$233 million and \$179 million, respectively, and declared dividends on preferred stock of \$14 million for both periods.

During the three month periods ended September 30, 2017 and 2016, the Parent Company repurchased \$225 million and \$250 million of its outstanding common stock, respectively. During the nine month period ended September 30, 2017 and 2016, the Parent Company repurchased \$485 million and \$250 million of its outstanding common stock, respectively.

Our Parent Company's cash and cash equivalents represent a source of liquidity that can be used to meet various needs and totaled \$551 million as of September 30, 2017 and December 31, 2016, respectively.

Our Parent Company's liquidity risk is low for the following reasons: (i) the Parent Company has no material non-banking subsidiaries, and its banking subsidiaries are self-funding; (ii) the capital structures of the Parent Company's banking subsidiaries are similar to the Parent Company's capital structure; and, (iii) other cash flow requirements, such as operating expenses, are relatively small. The Parent Company's double-leverage ratio (the combined equity of Parent Company subsidiaries divided by Parent Company equity) is a measure of reliance on equity cash flows from subsidiaries. At September 30, 2017, the Parent Company's double-leverage ratio was 102%.

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) wholesale borrowings, as needed, and as described under "—Liquidity Risk Management and Governance." The primary uses of bank liquidity include (i) withdrawals and maturities of deposits; (ii) payment of interest on deposits; (iii) funding of loans and related 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, on February 24, 2017, we increased the size of CBNA's Global Note Program from \$5.0 billion to \$8.0 billion. On March 2, 2017, CBNA issued \$1.0 billion in three-year senior notes, consisting of \$700 million in fixed-rate notes and \$300 million in floating-rate notes. On May 26, 2017, CBNA issued

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

\$1.5 billion in senior notes, consisting of \$500 million of three-year fixed-rate notes, \$250 million of three-year floating-rate notes, \$500 million in five-year fixed-rate notes, and \$250 million in five-year floating-rate notes.

Liquidity Risk

We define liquidity risk as the risk that an entity will be unable to meet its payment obligations in a timely manner, at a reasonable cost. We manage liquidity risk at the consolidated enterprise level, and at the legal entity level, including at the Parent Company, 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 damaged market confidence.

Factors Affecting Liquidity

Given the composition of their assets and borrowing sources, contingent liquidity risk 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.

Similarly, given the structure of their balance sheets, the funding liquidity risk 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 contingent liquidity risk and 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:

	September 30, 2017		
	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
Preferred Stock	NR	BB+	BB-
Citizens Bank, N.A.:			
Long-term issuer	Baa1	A-	BBB+
Short-term issuer	P-2	A-2	F2
Long-term deposits	A1	NR	A-
Short-term deposits	P-1	NR	F2
Citizens Bank of Pennsylvania:			
Long-term issuer	Baa1	A-	BBB+
Short-term issuer	NR	A-2	F2
Long-term deposits	A1	NR	A-
Short-term deposits	P-1	NR	F2

NR = Not rated

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

54

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

reliance on unsecured wholesale funding. At September 30, 2017, our wholesale funding consisted primarily of secured borrowings from the FHLBs collateralized by high-quality residential mortgages, and term debt issued by the Parent Company and CBNA.

Existing and evolving regulatory liquidity requirements, such as the LCR and NSFR, represent another key driver of systemic liquidity conditions and liquidity management practices. The FRB, the OCC, and the FDIC regularly evaluate our liquidity as part of the overall supervisory process.

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 financial institution and were 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 remain fully compliant with the LCR as of September 30, 2017.

The U.S. federal bank regulatory agencies have issued a notice of proposed rulemaking to implement the NSFR, along with a modified version with similar parameters as the LCR, that would designate us as a modified NSFR financial institution. The NSFR is one of the two Basel III-based liquidity measures, distinctly separate from the LCR, and is designed to promote medium- and long-term stable funding of the assets and off-balance sheet activities of banks and bank holding companies over a one-year time horizon. Generally consistent with the Basel Committee's framework, under the proposed rule banking organizations would be required to hold an amount of available stable funding ("ASF") over a one-year time horizon that equals or exceeds the institution's amount of required stable funding ("RSF"), with the ASF representing the numerator and the RSF representing the denominator of the NSFR. The banking organizations subject to the modified NSFR would multiply the RSF amount by 70%, such that the RSF amount required for these companies would be required to maintain ASF of at least 70% of its RSF. Generally, these modified NSFR companies are defined as institutions with total assets of greater than \$50 billion but less than \$250 billion and less than \$10 billion of on-balance sheet foreign exposure. The proposed rule includes detailed descriptions of the items that would comprise ASF and RSF and standardized factors that would apply to ASF and RSF items, and would require any institution whose applicable modified NSFR falls under 100% to notify the appropriate federal regulator and develop a remediation plan. We are currently evaluating the impact of the U.S. federal bank regulatory agencies' NSFR framework. If ultimately adopted as currently proposed, the implementation of the NSFR could impact our liquidity and funding requirements and practices in the future.

We continue to review and monitor these liquidity requirements to develop appropriate implementation plans and liquidity strategies. We expect to be fully compliant with the final rules on or prior to their applicable effective date.
Liquidity Risk Management and Governance

Liquidity risk is measured and managed by the 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 Funding and Liquidity Unit delivers regular and comprehensive reporting, including current levels versus threshold limits for a broad set of liquidity metrics and early warning indicators, explanatory commentary relating to emerging risk trends and, as appropriate, recommended remedial strategies.

The mission of our Funding and Liquidity Unit is to deliver and otherwise maintain prudent levels of operating liquidity (to support expected and projected funding requirements), and contingent liquidity (to support unexpected funding requirements resulting from idiosyncratic, systemic, and combination stress events, and regulatory liquidity requirements). Additionally, we will deliver this liquidity from stable funding 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 September 30, 2017:

Core deposits continued to be our primary source of funding and our consolidated period end loan-to-deposit ratio was 98.4%;

Our cash position (which is defined as cash balance held at the FRB) totaled \$1.3 billion;

55

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

Contingent liquidity was \$27.7 billion, consisting of unencumbered high-quality liquid assets of \$20.3 billion, unused FHLB capacity of \$6.1 billion, and our cash position (defined above) of \$1.3 billion. Asset liquidity (a component of contingent liquidity) was \$21.6 billion consisting of unencumbered high-quality and liquid securities of \$20.3 billion and our cash position of \$1.3 billion; and

Available discount window capacity, defined as available total borrowing capacity from the FRB based on identified collateral, is secured by non-mortgage commercial and retail loans and totaled \$12.7 billion. Use of this borrowing capacity would likely be considered only during exigent circumstances.

The Funding and Liquidity Unit monitors a variety of liquidity and funding metrics and early warning indicators and metrics, including specific risk thresholds limits. These monitoring tools are broadly classified as follows:

- Current liquidity sources and capacities, including cash at the FRBs, free and liquid securities and available and secured FHLB borrowing capacity;

- Liquidity stress sources, including idiosyncratic, systemic and combined stresses, 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 individually for our banking subsidiaries and for our consolidated enterprise on a daily basis, including net overnight position, unencumbered securities, asset liquidity, and available FHLB borrowing capacity. 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 \$1.5 billion in the first nine months of 2017, driven by net income of \$986 million and a net decrease in loans held for sale activity of \$141 million. Net cash used by investing activities was \$3.9 billion, primarily reflecting purchases of securities available for sale of \$4.1 billion and a net increase in loans and leases of \$3.5 billion, partially offset by proceeds from maturities, paydowns and sales of securities available for sale of \$3.5 billion. Cash provided by financing activities was \$890 million, driven by proceeds from issuance of long-term borrowed funds of \$12.1 billion and a net increase in deposits of \$3.4 billion, partially offset by a net decrease in other short-term borrowed funds of \$1.7 billion, and repayments of long-term FHLB advances of \$11.5 billion. The \$12.1 billion proceeds from issuances of long-term borrowed funds included \$2.5 billion from issuances of medium-term debt and \$9.6 billion in FHLB advances. These activities resulted in a cumulative decrease in cash and cash equivalents of \$1.6 billion, which when subtracted from the cash and cash equivalents balance of \$3.7 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of \$2.1 billion as of September 30, 2017.

Cash flows from operating activities contributed \$1.2 billion in the first nine months of 2016. Net cash used by investing activities was \$8.7 billion, primarily reflecting a net increase in loans and leases of \$6.7 billion and securities available for sale portfolio purchases of \$4.8 billion, partially offset by proceeds from maturities, paydowns and sales of securities available for sale of \$3.4 billion. Cash provided by financing activities was \$7.3 billion, driven by net increase in deposits of \$5.8 billion, and proceeds from issuance of long-term borrowed funds of \$9.6 billion, partially offset by a net decrease in other short-term borrowed funds of \$1.6 billion, and repayments of long-term borrowed funds of \$6.1 billion. The \$9.6 billion proceeds included \$2.1 billion from issuances of medium term debt and \$7.5 billion in FHLB advances. The \$6.1 billion of repayments includes \$5.5 billion in repayments of FHLB advances and \$625 million paid to repurchase subordinated debt. These activities represented a cumulative decrease in cash and cash equivalents of \$170 million, which, when added to the cash and cash equivalents balance of \$3.1 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of \$2.9 billion as of September 30, 2016.

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

OFF-BALANCE SHEET ARRANGEMENTS

The following table presents our outstanding off-balance sheet arrangements. See Note 11 "Commitments and Contingencies" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

(in millions)	September 30, 2017	December 31, 2016	Change	Percent
Undrawn commitments to extend credit	\$61,934	\$60,872	\$1,062	2 %
Financial standby letters of credit	2,080	1,892	188	10
Performance letters of credit	42	40	2	5
Commercial letters of credit	68	43	25	58
Marketing rights	41	44	(3)	(7)
Risk participation agreements	20	19	1	5
Residential mortgage loans sold with recourse	7	8	(1)	(13)
Total	\$64,192	\$62,918	\$1,274	2 %

In first quarter 2017, we entered into an agreement to purchase education loans on a quarterly basis beginning with the first quarter 2017 and ending with the fourth quarter 2017. The total minimum and maximum amount for 2017 of the aggregate purchase principal balance of loans under the terms of the agreement are \$750 million and \$1.5 billion, respectively, and we have a remaining maximum purchase commitment of \$375 million. The agreement may be extended by written agreement of the parties for an additional four quarters. The agreement will terminate immediately if at any time during its term the aggregate purchase principal balance of loans equals the maximum amount. We may also terminate the agreement at will with payment of a termination fee equal to the product of \$1 million times the number of quarters remaining under the agreement.

CRITICAL ACCOUNTING ESTIMATES

Our unaudited interim Consolidated Financial Statements, which are included 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. Our most significant accounting policies and estimates are related to ALLL, fair value, goodwill, and income taxes. For additional information regarding these accounting policies and estimates and their related application, see "—Critical Accounting Estimates" to the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2016. No material changes were made to these valuation techniques or models during the nine months ended September 30, 2017.

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 our 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 Executive Risk Committee ("ERC"), chaired by the Chief Risk Officer, is responsible for oversight of risk across the enterprise and actively considers our inherent material risks, analyzes our overall risk profile and seeks confirmation that the risks are being appropriately identified, assessed and mitigated. Reporting to the ERC are the following additional committees, covering specific areas of risk: Compliance and Operational Risk Committee, Model Risk Committee, Credit Policy Committee, Asset/Liability Committee, Business Initiatives Review Committee, and the Ethics Oversight Committee.

Risk Framework

Our risk management framework is embedded in our business through a “Three Lines of Defense” model which defines responsibilities and accountabilities for risk management activities.

57

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

First Line of Defense

The business lines (including their associated support functions) are the first line of defense and are accountable for identifying, assessing, managing, and controlling the risks associated with the products and services they provide. 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 operational and financial reporting controls on a regular basis, establishing and documenting operating procedures and establishing and owning a governance structure for identifying and managing risk.

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 and related policies. 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, including credit, market, operational, regulatory, reputational, interest rate, liquidity and strategic risks.

Third Line of Defense

Our Internal Audit function is the third line of defense providing independent assurance with a view of the effectiveness of Citizens' internal controls, governance practices, and culture so that risk is managed appropriately for the size, complexity, and risk profile of the organization. Internal Audit has complete and unrestricted access to any and all Bank records, physical properties, and personnel. Internal Audit issues a report following each internal review and provides an audit opinion to Citizens' Audit Committee on a quarterly basis.

Credit Quality Assurance also reports to the Chief Audit Executive and also provides the legal-entity boards, senior management and other stakeholders with independent assurance on the quality of credit portfolios and adherence to agreed Credit Risk Appetite and Credit Policies and processes. In line with its procedures and regulatory expectations, the Credit Quality Assurance function undertakes a program of portfolio testing, assessing and reporting through four Risk Pillars of Asset Quality, Rating and Data Integrity, Risk Management and Credit Risk Appetite.

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 could be unable to achieve our strategic objectives and capital adequacy obligations. Our principal non-market risks include: credit, operational, regulatory, reputational, liquidity, and strategic risks. We are also subject to certain market risks which include potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and/or other relevant market rates or prices. Market risk in our business arises from trading activities that serve customer needs, including hedging of interest rates, foreign exchange risk and non-trading activities within capital markets. We have established enterprise-wide policies and methodologies to identify, measure, monitor and report on market risk. We actively manage both trading and non-trading market risks. See "—Market Risk" for further information. Our risk appetite is reviewed and approved annually by the Board Risk Committee.

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 independent Credit Risk Function is responsible for reviewing and approving credit risk appetite across all lines of business and credit products, approving larger and higher risk credit transactions, monitoring portfolio performance, identifying problem credit exposures, 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 Chief Credit Officer who oversees all of our credit risk. The Chief Credit Officer reports to the Chief Risk Officer. The Chief Credit Officer, 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 Chief Credit Officer and team also have responsibility for credit approvals for larger and higher risk transactions and oversight of line of business credit risk activities. Reporting to the Chief Credit Officer are the heads of the second line of defense credit functions specializing in: Consumer Banking; Commercial Banking; Citizens Restructuring Management; Portfolio and Corporate Reporting; ALLL Analytics; and Credit Policy and Administration. Each team under these leaders is composed of highly experienced credit professionals.

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 changes in our business model and strategies that identify a need to change our risk appetite or highlight a risk not previously contemplated are identified by the individual committees and presented to the Credit Policy Committee, Executive Risk Committee and the Board Risk Committee for approval, as appropriate.

Key Management Processes

We employ a comprehensive and integrated risk control program to proactively (1) identify, (2) measure, (3) monitor, and (4) mitigate existing and emerging credit risks across the credit lifecycle (origination, account management/portfolio management, and loss mitigation and recovery).

Consumer

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. 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.

To ensure proper oversight of the underwriting teams, lending authority is granted by the second line of defense credit risk function 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 second line of defense credit risk team are authorized to approve significant exceptions to credit policies. It is not uncommon to make exceptions to established policies when compensating factors are present. There are exception limits which, when reached, trigger a comprehensive analysis.

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. Our approach to managing credit risk is highly analytical and, where appropriate, is automated, to ensure consistency and efficiency.

Commercial

On the commercial banking side of credit risk, the structure is broken into C&I loans and leases and CRE. Within C&I loans and leases there are separate verticals established for certain specialty products (e.g., asset-based lending, leasing, franchise finance, health care and 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.

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 with the requisite level of delegated authority. The approval level of a particular credit facility is determined by the size of the credit relationship as well as the PD. 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,

59

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

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 and validate risk ratings, as well as test the consistency of the credit processes and the effectiveness of credit risk management.

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 asset class and loan quality factors. We focus predominantly on extending credit to commercial customers with existing or expandable relationships within our primary markets (for this purpose defined as our 11 state footprint plus contiguous states), although we do engage in lending opportunities outside our primary markets if we believe that the associated risks are acceptable and aligned with strategic initiatives.

Substantially all loans categorized as Classified are managed by a specialized group of credit professionals.

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 substantially composed of interest rate risk, as we have no direct currency or commodity risk and de minimis equity risk. We also have market risk related to capital markets loan originations, as well as the valuation of our mortgage servicing rights.

Interest Rate Risk

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 and drivers of rate changes reflecting the maturity and/or repricing of assets and liabilities. For example, the rate earned on a commercial loan may reprice monthly with changes in LIBOR while the rate paid on debt or certificates of deposit may be fixed for a longer period. There are differences in the drivers of rate changes as well. Loans may be tied to a specific index rate such as LIBOR or Prime, while deposits may be only loosely correlated with LIBOR and depend on competitive demand. 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 now fairly evenly split between the short and long ends of the yield curve. For the past eight years with the Federal Funds rate near zero, this risk had been asymmetrical with significantly more upside benefit than potential exposure. As interest rates have begun to rise, the risk position has

become more symmetrical as rates can decline further before becoming floored at zero.

60

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

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 ("ALCO") 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. Assessments are periodically made by running sensitivity analysis of the impact of key assumptions. The results of these analyses are reported to ALCO. 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, 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 the market implied forward yield curve. The net interest income simulation analyses do not include possible future actions that management might undertake to mitigate this risk. The current limit is a decrease in net interest income of 13% related to an instantaneous +/- 200 basis point move. This limit was increased from a 10.0% decline in net interest income related to an instantaneous +/-200 basis point move in March 2017. With rates rising from historically low levels due to FRB rate increases in December 2016, March 2017, and June 2017 exposure to falling rates has increased. As the following 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 within limit. 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 as demonstrated in the following table.

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

The table below presents the sensitivity of net interest income to various parallel yield curve shifts from the market implied forward yield curve:

Basis points	Estimated % Change in Net Interest Income over 12 Months	
	September 30, 2017	December 31, 2016
Instantaneous Change in Interest Rates		
+200	10.2 %	11.3 %
+100	5.2	5.6
-100	(7.8)	(6.9)
-200	(12.0)	(9.8)
Gradual Change in Interest Rates		
+200	5.4	5.9
+100	2.8	3.1
-100	(2.8)	(3.0)
-200	(7.2)	(6.2)

Asset sensitivity against a 200 basis point gradual increase in rates was 5.4% at September 30, 2017, a decline from 5.9% at December 31, 2016 and little changed from 5.5% at June 30, 2017. The core asset sensitivity is the result of faster repricing of the loan book relative to the deposit and equity funding. As the Fed has slowly begun to normalize rates given improved economic growth and data, this upward trend in rates has benefited our net interest income and net interest margin as a result of the asset sensitivity. The risk position can be affected by changes in interest rates which impact the repricing sensitivity or beta of the deposit base as well as the cash flows on prepayable assets. The risk position is managed within our risk limits through occasional adjustments to securities investments, interest rate swaps and mix of funding.

We use a valuation measure of exposure to structural interest rate risk, Economic Value of Equity ("EVE"), as a supplement to net interest income simulations. EVE complements net interest income simulation analysis as it estimates risk exposure over a long-term horizon. EVE measures the extent to which the economic value of assets, liabilities and off-balance sheet instruments may change in response to fluctuation in interest rates. This analysis is highly dependent upon assumptions applied to assets and liabilities with non-contractual maturities. The change in value is expressed as a percentage of regulatory capital. The current risk limit is set at a decrease of 20% of regulatory capital given an instantaneous +/- 200 basis point change in interest rates. We are operating within that limit as of September 30, 2017.

Capital Markets

A key component of our capital markets activities is the underwriting and distribution of corporate credit facilities to partially finance mergers and acquisitions transactions for our clients. We have a rigorous risk management process around these activities, including a limit structure capping our underwriting risk, our potential loss, and sub limits for specific asset classes. Further, the ability to approve underwriting exposure is delegated only to senior level individuals in the credit risk management and capital markets organizations with each transaction adjudicated in a formal committee meeting.

Mortgage Servicing Rights

We have market risk associated with the value of the mortgage servicing right assets, which are impacted by the level of interest rates. As of September 30, 2017 and December 31, 2016, our mortgage servicing rights had a book value of \$167 million and \$162 million, respectively, and were carried at the lower of cost or fair value. As of September 30, 2017 and December 31, 2016, the fair value of the mortgage servicing rights was \$183 million and \$182 million, respectively, which exceeded the carrying value at those dates. 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 as well as underwriting and market making activities. Exposure is created as a result of changes in interest rates and related basis spreads and volatility, foreign exchange rates, and credit spreads on a select range of interest rates, foreign exchange and secondary loan instruments. These trading activities are conducted through our two banking subsidiaries, CBNA and CBPA.

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

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 market risk exposure. In addition to the aforementioned activities, we operate a secondary loan trading desk with 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

The market risk limit setting process is established in line with the formal enterprise risk appetite process and policy. This appetite reflects the strategic and enterprise level articulation of opportunities for creating franchise value set to the boundaries of how much market risk to take. Dealing authorities represent the key control tool in the management of market risk that allows the cascading of the risk appetite throughout the enterprise. A dealing authority sets the operational scope and tolerances within which a business and/or trading desk is permitted to operate and this is reviewed at least annually. Dealing authorities are structured to accommodate the client facing trades and hedges needed to manage the risk profile. Primary responsibility for keeping within established tolerances resides with the business. Key risk indicators, including VaR, open foreign currency positions, and single name 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 as a statistical measure for estimating potential exposure of our traded market risk in normal market conditions. Our VaR framework for risk management and regulatory reporting is the same. Risk management VaR is based on a one day holding period to a 99% confidence level, whereas regulatory VaR is based on a ten day holding period to the same confidence level. Additional to VaR, non-statistical measurements for measuring risk are employed, such as sensitivity analysis, market value and stress testing.

Our market risk platform and associated market risk and valuation models for our foreign exchange, interest rate products, and traded loans capture correlation effects and allow for aggregation of market risk across risk types, business lines and legal entities. We measure, monitor and report market risk for both management and regulatory capital purposes.

VaR Overview

The 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. During the quarter ending March 31, 2017, we integrated our secondary traded loans into our enterprise wide market risk platform for the calculation of VaR on the general interest rate risk embedded within the traded loans. And thus retired the associated standalone model that replicated the general VaR methodology on the traded loans (the related capital was historically reflected on the "de minimis" line in the following section in prior quarters). The measured VaR on the trading portfolio is now comprised of three covered position sub-portfolios (interest rate derivatives, foreign exchange, and traded loans). The 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 ten-day holding period. The historical market data applied to calculate the VaR is updated on a ten business day lag. Refer to “Market Risk Regulatory Capital” below for details of our ten-day VaR metrics for the quarters ended September 30, 2017 and 2016, including high, low, average and period end VaR for interest rate and foreign exchange rate risks, as well as total VaR.

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

Market Risk Regulatory Capital

The U.S. banking regulators' "Market Risk Rule" covers the calculation of market risk capital. 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 and associated hedges need to maintain a low risk profile to qualify, and do qualify, as "covered positions." For the three months ended September 30, 2017, we were not subject to the reporting threshold under the Market Risk Rule, as we did not meet the applicability threshold, and as such, our covered trading activities were risk-weighted under U.S. Basel III Standardized credit risk rules. While not subject to the determination requirements of market risk-weighted assets, we nevertheless comply with the Market Risk Rule's other requirements. The internal management VaR measure is calculated based on the same population of trades that is utilized for regulatory VaR. The following table presents, for information and comparison purposes, the results of our modeled and non-modeled measures for regulatory capital calculations as if we had met the threshold under the Market Risk Rule for both periods presented:

(in millions)	For the Three Months Ended September 30, 2017				For the Three Months Ended September 30, 2016			
	Period	Average	High	Low	Period	Average	High	Low
Market Risk Category								
Interest Rate	\$2	\$1	\$2	\$—	\$—	\$—	\$—	\$—
Foreign Exchange Currency Rate	—	—	—	—	—	—	2	—
Credit Spread	1	2	4	1	—	—	—	—
General VaR	2	2	5	1	—	—	2	—
Specific Risk VaR	—	—	—	—	—	—	—	—
Total VaR	\$2	\$2	\$5	\$1	\$—	\$—	\$—	\$—
Stressed General VaR	\$7	\$8	\$11	\$5	\$2	\$2	\$5	\$1
Stressed Specific Risk VaR	—	—	—	—	—	—	—	—
Total Stressed VaR	\$7	\$8	\$11	\$5	\$2	\$2	\$5	\$1
Market Risk Regulatory Capital	\$28				\$7			
Specific Risk Not Modeled Add-on	8				7			
de Minimis Exposure Add-on	11				17			
Total Market Risk Regulatory Capital	\$47				\$31			
Market Risk-Weighted Assets (calculated)	\$594				\$385			
Market Risk-Weighted Assets (included in regulatory filing) ⁽¹⁾	\$—				\$385			

⁽¹⁾ For the three months ended September 30, 2017, we did not meet the reporting threshold prescribed by Market Risk Capital Guidelines.

Stressed VaR

SVaR is an extension of VaR, but uses a longer historical look-back horizon that is fixed from January 3, 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 ten days. In addition to risk management purposes, SVaR is also a component of market risk regulatory capital. We calculate SVaR daily under its own dynamic window regime. In a dynamic window regime, values of the ten-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.

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, option prices, and credit spreads. 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 and concentrations.

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

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

for selected time periods corresponding to the most volatile underlying returns while hypothetical stress tests aim to consider concentration risk, illiquidity under stressed market conditions and risk arising from our trading activities that may not be fully captured by our other models. Hypothetical scenarios also assume that market moves happen simultaneously and no repositioning or hedging activity takes place to mitigate losses as events unfold. We generate stress tests of our trading positions on a daily basis. For example, we currently include a stress test that simulates a "Lehman-type" crisis scenario by taking the worst 20-trading day peak to trough moves for the various risk factors that go into VaR from that period, and assumes they occurred simultaneously.

VaR Model Review and Validation

Market risk measurement models used are independently reviewed and subject to ongoing performance analysis by the model owner. The independent review and validation focuses on the model methodology, market data, and performance. Independent review of market risk measurement models is the responsibility of Citizens' Model Risk Management and Validation team. 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 the U.S. banking regulators. The market risk models may be periodically enhanced due to changes in market price levels and price action regime behavior. The Market Risk Management and Validation team will conduct internal validation before a new or changed model element is implemented and before a change is made to a market data mapping.

VaR Backtesting

Backtesting is one form of validation of the VaR model and is run daily. 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, when applicable. We perform sub-portfolio backtesting as required under the Market Risk Rule, and as approved by our banking regulators, for interest rate, credit spread, and foreign exchange positions. The following graph shows our daily net trading revenue and total internal, modeled VaR for the quarters ended September 30, 2017, June 30, 2017, March 31, 2017, December 31, 2016, and September 30, 2016.

Daily VaR Backtesting

Note: As mentioned in the above "VaR Overview" section, we migrated our secondary loan trading activities from our stand alone model to our enterprise market risk platform in first quarter 2017. The above back-testing graph reflects the impact of said inclusion and daily oscillations of the market making traded loan inventory.

CITIZENS FINANCIAL GROUP, INC.
FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ITEM 1. FINANCIAL STATEMENTS

	Page
<u>Consolidated Balance Sheets as of September 30, 2017 (unaudited) and December 31, 2016 (unaudited)</u>	<u>67</u>
<u>Consolidated Statements of Operations (unaudited) for the Three and Nine Months Ended September 30, 2017 and 2016</u>	<u>68</u>
<u>Consolidated Statements of Comprehensive Income (unaudited) for the Three and Nine Months Ended September 30, 2017 and 2016</u>	<u>69</u>
<u>Consolidated Statements of Changes in Stockholders' Equity (unaudited) for the Nine Months Ended September 30, 2017 and 2016</u>	<u>70</u>
<u>Consolidated Statements of Cash Flows (unaudited) for the Nine Months Ended September 30, 2017 and 2016</u>	<u>71</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>72</u>
<u>Note 1 - Basis of Presentation</u>	<u>72</u>
<u>Note 2 - Securities</u>	<u>76</u>
<u>Note 3 - Loans and Leases</u>	<u>80</u>
<u>Note 4 - Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk</u>	<u>81</u>
<u>Note 5 - Variable Interest Entities</u>	<u>94</u>
<u>Note 6 - Mortgage Banking</u>	<u>95</u>
<u>Note 7 - Borrowed Funds</u>	<u>96</u>
<u>Note 8 - Stockholders' Equity</u>	<u>99</u>
<u>Note 9 - Income Taxes</u>	<u>99</u>
<u>Note 10 - Derivatives</u>	<u>100</u>
<u>Note 11 - Commitments and Contingencies</u>	<u>103</u>
<u>Note 12 - Fair Value Measurements</u>	<u>105</u>
<u>Note 13 - Regulatory Matters</u>	<u>113</u>
<u>Note 14 - Reclassifications Out of Accumulated Other Comprehensive Income (Loss)</u>	<u>115</u>
<u>Note 15 - Business Segments</u>	<u>116</u>
<u>Note 16 - Earnings Per Share</u>	<u>119</u>
<u>Note 17 - Other Income</u>	<u>119</u>
<u>Note 18 - Other Operating Expense</u>	<u>120</u>
<u>Note 19 - Subsequent Events</u>	<u>120</u>

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data)	September 30, 2017	December 31, 2016
ASSETS:		
Cash and due from banks	\$781	\$955
Interest-bearing cash and due from banks	1,339	2,749
Interest-bearing deposits in banks	287	439
Securities available for sale, at fair value (including \$96 and \$256 pledged to creditors, respectively) (a)	19,982	19,501
Securities held to maturity (including fair value of \$4,839 and \$5,058, respectively)	4,823	5,071
Other investment securities, at fair value	165	96
Other investment securities, at cost	772	942
Loans held for sale, at fair value	500	583
Other loans held for sale	724	42
Loans and leases	110,151	107,669
Less: Allowance for loan and lease losses	(1,224)	(1,236)
Net loans and leases	108,927	106,433
Derivative assets	596	627
Premises and equipment, net	618	601
Bank-owned life insurance	1,646	1,612
Goodwill	6,887	6,876
Due from broker	226	—
Other assets	3,083	2,993
TOTAL ASSETS	\$151,356	\$149,520
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$28,643	\$28,472
Interest-bearing	84,592	81,332
Total deposits	113,235	109,804
Federal funds purchased and securities sold under agreements to repurchase	453	1,148
Other short-term borrowed funds	1,505	3,211
Derivative liabilities	242	659
Deferred taxes, net	744	714
Long-term borrowed funds	13,400	12,790
Other liabilities	1,668	1,447
TOTAL LIABILITIES	\$131,247	\$129,773
Contingencies (refer to Note 11)		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$25.00 par value, authorized 100,000,000 shares:		
Series A, non-cumulative perpetual, \$25 par value, (liquidation preference \$1,000), 250,000 shares authorized and issued net of issuance costs and related premium at September 30, 2017 and December 31, 2016	\$247	\$247
Common stock:		
\$0.01 par value, 1,000,000,000 shares authorized, 565,769,260 shares issued and 499,505,285 shares outstanding at September 30, 2017 and 1,000,000,000 shares authorized, 564,630,542 shares issued and 511,954,871 shares outstanding at December 31, 2016	6	6

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

Additional paid-in capital	18,768	18,722
Retained earnings	3,442	2,703
Treasury stock, at cost, 66,263,975 and 52,675,671 shares at September 30, 2017 and December 31, 2016, respectively	(1,773)	(1,263)
Accumulated other comprehensive loss	(581)	(668)
TOTAL STOCKHOLDERS' EQUITY	\$20,109	\$19,747
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$151,356	\$149,520

^(a) Includes only collateral pledged by the Company where counterparties have the right to sell or pledge the collateral.

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
INTEREST INCOME:				
Interest and fees on loans and leases	\$1,096	\$926	\$3,128	\$2,690
Interest and fees on loans held for sale, at fair value	5	4	13	10
Interest and fees on other loans held for sale	3	1	6	6
Investment securities	155	146	469	432
Interest-bearing deposits in banks	5	2	13	6
Total interest income	1,264	1,079	3,629	3,144
INTEREST EXPENSE:				
Deposits	123	71	311	194
Federal funds purchased and securities sold under agreements to repurchase	1	1	2	2
Other short-term borrowed funds	7	10	22	33
Long-term borrowed funds	71	52	201	143
Total interest expense	202	134	536	372
Net interest income	1,062	945	3,093	2,772
Provision for credit losses	72	86	238	267
Net interest income after provision for credit losses	990	859	2,855	2,505
NONINTEREST INCOME:				
Service charges and fees	131	134	385	390
Card fees	58	52	177	153
Capital markets fees	53	36	152	99
Trust and investment services fees	38	37	116	112
Letter of credit and loan fees	30	28	90	83
Foreign exchange and interest rate products	24	28	77	72
Mortgage banking fees	27	33	80	76
Securities gains, net	2	—	9	13
Net securities impairment losses recognized in earnings	(1)	(3)	(6)	(11)
Other income	19	90	50	133
Total noninterest income	381	435	1,130	1,120
NONINTEREST EXPENSE:				
Salaries and employee benefits	436	432	1,312	1,289
Outside services	99	102	286	279
Occupancy	78	78	239	230
Equipment expense	65	65	196	194
Amortization of software	45	46	134	126
Other operating expense	135	144	409	387
Total noninterest expense	858	867	2,576	2,505
Income before income tax expense	513	427	1,409	1,120
Income tax expense	165	130	423	357
NET INCOME	\$348	\$297	\$986	\$763
Net income available to common stockholders	\$341	\$290	\$972	\$749
Weighted-average common shares outstanding:				
Basic	500,861,076	458,976,505	529,325,477	521,273

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

Diluted	502,157,584	122,466,507	805,261,384
Per common share information:			
Basic earnings	\$0.68	\$0.56	\$1.92 \$1.43
Diluted earnings	0.68	0.56	1.92 1.42
Dividends declared and paid	0.18	0.12	0.46 0.34

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

68

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$348	\$297	\$986	\$763
Other comprehensive income:				
Net unrealized derivative instrument (losses) gains arising during the periods, net of income taxes of (\$1), \$0, \$13 and \$29, respectively	(1	)(1	)22	45
Reclassification adjustment for net derivative gains included in net income, net of income taxes of (\$2), (\$4), (\$8) and (\$14), respectively	(2	)(6	)(13	)(23
Net unrealized securities gains (losses) arising during the periods, net of income taxes of \$8, (\$17), \$44 and \$114, respectively	13	(28	)74	190
Other-than-temporary impairment not recognized in earnings on securities, net of income taxes of \$0, \$2, (\$1) and (\$11), respectively	—	3	(2	)(18
Reclassification of net securities (gains) losses to net income, net of income taxes of \$0, \$1, (\$1) and (\$1), respectively	(1	)2	(2	)(1
Employee Benefit Plans: Amortization of actuarial loss, net of income taxes of \$2, \$2, \$6 and \$5, respectively	3	2	8	7
Total other comprehensive income (loss), net of income taxes	12	(28	)87	200
Total comprehensive income	\$360	\$269	\$1,073	\$963

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	Common	Additional	Retained	Treasury	Accumulated	Total	
	Stock	Stock						Paid-in	Earnings	Stock, at	Other
	Shares	Shares	Capital		Cost	Comprehensive		
	\$	\$	\$	\$	\$	Income (Loss)	\$	
Balance at January 1, 2016	\$247	528	\$6	\$18,725	\$1,913	(\$858)	(\$387)	\$19,646
Dividends to common stockholders	—	—	—	—	(179)	—	—	(179)
Dividends to preferred stockholders	—	—	—	—	(14)	—	—	(14)
Treasury stock purchased	—	(11)	—	—	—	(250)	—	(250)
Share-based compensation plans	—	1	—	8	—	—	—	8
Employee stock purchase plan shares purchased	—	—	—	7	—	—	—	7
Total comprehensive income:								
Net income	—	—	—	—	763	—	—	763
Other comprehensive income	—	—	—	—	—	—	200	200
Total comprehensive income	—	—	—	—	763	—	200	963
Balance at September 30, 2016	\$247	518	\$6	\$18,740	\$2,483	(\$1,108)	(\$187)	\$20,181
Balance at January 1, 2017	\$247	512	\$6	\$18,722	\$2,703	(\$1,263)	(\$668)	\$19,747
Dividends to common stockholders	—	—	—	—	(233)	—	—	(233)
Dividends to preferred stockholders	—	—	—	—	(14)	—	—	(14)
Treasury stock purchased	—	(13)	—	25	—	(510)	—	(485)
Share-based compensation plans	—	1	—	12	—	—	—	12
Employee stock purchase plan shares purchased	—	—	—	9	—	—	—	9
Total comprehensive income:								
Net income	—	—	—	—	986	—	—	986
Other comprehensive income	—	—	—	—	—	—	87	87
Total comprehensive income	—	—	—	—	986	—	87	1,073
Balance at September 30, 2017	\$247	500	\$6	\$18,768	\$3,442	(\$1,773)	(\$581)	\$20,109

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)	Nine Months Ended September 30,	
	2017	2016
OPERATING ACTIVITIES		
Net income	\$986	\$763
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	238	267
Originations of mortgage loans held for sale	(2,159)	(1,904)
Proceeds from sales of mortgage loans held for sale	2,372	1,775
Purchases of commercial loans held for sale	(1,513)	(1,053)
Proceeds from sales of commercial loans held for sale	1,441	1,040
Amortization of terminated cash flow hedges, net	(17)	)6
Depreciation, amortization and accretion	388	387
Mortgage servicing rights valuation (recovery) charge-off	(1)	)6
Securities impairment	6	11
Deferred income taxes	(23)	)143
Share-based compensation	35	15
Net gain on sales of:		
Debt securities	(9)	)(13)
Other investment securities	(1))—
Premises and equipment	—	(2)
Increase in other assets	(155)	)(305)
(Decrease) increase in other liabilities	(138)	)62
Net cash provided by operating activities	1,450	1,198
INVESTING ACTIVITIES		
Investment securities:		
Purchases of securities available for sale	(4,088)	(4,774)
Proceeds from maturities and paydowns of securities available for sale	2,564	2,658
Proceeds from sales of securities available for sale	914	785
Purchases of securities held to maturity	(171)	)(523)
Proceeds from maturities and paydowns of securities held to maturity	422	503
Purchases of other investment securities, at fair value	(286)	)(204)
Proceeds from sales of other investment securities, at fair value	217	161
Purchases of other investment securities, at cost	(307)	)(84)
Proceeds from sales of other investment securities, at cost	495	70
Net decrease (increase) in interest-bearing deposits in banks	152	(364)
Net increase in loans and leases	(3,549)	)(6,724)
Net increase in bank-owned life insurance	(34)	)(36)
Premises and equipment:		
Purchases	(115)	)(44)
Proceeds from sales	—	3
Capitalization of software	(138)	)(126)
Net cash used in investing activities	(3,924)	)(8,699)
FINANCING ACTIVITIES		
Net increase in deposits	3,431	5,788

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

Net (decrease) increase in federal funds purchased and securities sold under agreements to repurchase	(695)	98
Net decrease in other short-term borrowed funds	(1,708)	(1,635)
Proceeds from issuance of long-term borrowed funds	12,108	9,644
Repayments of long-term borrowed funds	(11,501)	(6,128)
Treasury stock purchased	(485)	(250)
Dividends declared and paid to common stockholders	(233)	(179)
Dividends declared and paid to preferred stockholders	(7)	(7)
Payments of employee tax withholding for share-based compensation	(20)	—
Net cash provided by financing activities	890	7,331
Decrease in cash and cash equivalents ^(a)	(1,584)	(170)
Cash and cash equivalents at beginning of period ^(a)	3,704	3,085
Cash and cash equivalents at end of period ^(a)	\$2,120	\$2,915

^(a) Cash and cash equivalents includes cash and due from banks and interest-bearing cash and due from banks as reflected on the Consolidated Balance Sheets.

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 Annual Report on Form 10-K for the year ended December 31, 2016. 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 the accounts of the Company and subsidiaries in which the Company has a controlling financial interest. All intercompany transactions and balances have been eliminated. The Company has evaluated its unconsolidated entities and does not believe that any entity in which it has an interest, but does not currently consolidate, meets the requirements to be consolidated as a variable interest entity. 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.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses, evaluation and measurement of impairment of goodwill, evaluation of unrealized losses on securities for other-than-temporary impairment, accounting for income taxes, the valuation of AFS and HTM securities, and derivatives.

Certain prior period noninterest income amounts reported in the Consolidated Statement of Operations have been reclassified to conform to the current period presentation and student loans were renamed "education" loans to more closely align with the full range of services offered to borrowers, from loan origination to refinancing. These changes had no effect on net income, total comprehensive income, total assets or total stockholders' equity as previously reported.

Accounting Pronouncements Adopted in 2017

Pronouncement	Summary of Guidance	Effects on Financial Statements
Stock Compensation	<ul style="list-style-type: none"> • Requires that all excess tax benefits and tax deficiencies that pertain to employee stock-based incentive payments are recognized within income tax expense in the Consolidated Statement of Operations, rather than within additional paid in capital. 	<ul style="list-style-type: none"> • Adopted January 1, 2017
Issued March 2016	<ul style="list-style-type: none"> • This standard also allows entities to make a one-time policy election to account for forfeitures when they occur, which the Company elected to do. 	<ul style="list-style-type: none"> • Adoption of this guidance did not have a material impact on the Company's unaudited interim Consolidated Financial Statements

CITIZENS FINANCIAL GROUP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Accounting Pronouncements Pending Adoption

Pronouncement	Summary of Guidance	Effects on Financial Statements
Derivatives and Hedging Issued August 2017	<ul style="list-style-type: none"> Reduces the complexity and operational burdens of the current hedge accounting model and portrays more clearly the effects of hedge accounting in the financial statements. Modifies current requirements to facilitate the application of hedge accounting to partial-term hedges, hedges of prepayable financial instruments, and other strategies. 	<ul style="list-style-type: none"> Required effective date: January 1, 2019. Early adoption is permitted. The Company is still assessing the impacts upon adoption on the Consolidated Financial Statements.
	<ul style="list-style-type: none"> Eliminates the requirement to separately recognize and report hedge ineffectiveness. 	
	<ul style="list-style-type: none"> Requires the effects of fair value hedges to be classified in the same income statement line as the earnings effect of the hedged item. For example, changes in the fair values of a derivative and a hedged item designated in a fair value hedge of interest rate risk will require classification within Interest income or Interest expense. 	
	<ul style="list-style-type: none"> Requires the effects of cash flow hedges to be deferred in other comprehensive income until the hedged cash flows affect earnings. Periodic hedge ineffectiveness will no longer be separately recognized in earnings. 	
Stock Compensation Issued May 2017	<ul style="list-style-type: none"> Requires modification accounting unless the fair value, vesting conditions, and classification of the modified award are the same as the original award immediately before the modification. 	<ul style="list-style-type: none"> Required effective date: January 1, 2018. Early adoption is permitted. The Company will adopt the new standard in the first quarter of 2018. Adoption is not expected to have a material impact on the Company's Consolidated Financial Statements.
	<ul style="list-style-type: none"> Applied prospectively to all modifications of share-based awards after the adoption date. 	
Premium Amortization on Purchased Callable	<ul style="list-style-type: none"> 	<ul style="list-style-type: none"> Required effective date: January 1, 2019.

Debt Securities Issued March 2017	Requires amortization of premiums to the earliest call date on debt securities with call features that are explicit, noncontingent and callable at fixed prices and on preset dates.	<ul style="list-style-type: none"> • Adoption is not expected to have a material impact on the Company's Consolidated Financial Statements.
Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost Issued March 2017	Requires adoption on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Requires the service cost component of net periodic pension and postretirement benefit cost to be reported separately in the Consolidated Statements of Operations from the other components (e.g., expected return on assets, interest costs, amortization of gains/losses and prior service costs).	<ul style="list-style-type: none"> • Required effective date: January 1, 2018. Early adoption is permitted. The Company will adopt the new standard in the first quarter of 2018. • Adoption will have no impact on the Company's net income, but based on recent experience that the expected return on assets exceeds the sum of the other components, the Company expects that the guidance will result in an increase in salaries and employee benefits expense and a reduction in other operating expense.
Goodwill Issued January 2017	Requires an impairment loss to be recognized when the estimated fair value of a reporting unit falls below its carrying value. Eliminates the second condition in the current guidance that requires an impairment loss to be recognized only if the estimated implied fair value of the goodwill is below its carrying value. Applied prospectively to all goodwill impairment tests performed after the adoption date.	<ul style="list-style-type: none"> • Required effective date: January 1, 2020. Early adoption is permitted. The Company does not currently intend to early adopt the new standard. • Adoption is not expected to have a material impact on the Company's Consolidated Financial Statements.

CITIZENS FINANCIAL GROUP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Pronouncement	Summary of Guidance	Effects on Financial Statements
<p>Financial Instruments - Credit Losses</p> <p>Issued June 2016</p>	<ul style="list-style-type: none"> • Replaces existing incurred loss impairment guidance and establishes a single allowance framework for financial assets carried at amortized cost (including securities HTM), which will reflect management’s estimate of credit losses over the full remaining expected life of the financial assets. • Amends existing impairment guidance for securities AFS to incorporate an allowance, which will allow for reversals of impairment losses in the event that the credit of an issuer improves. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. 	<ul style="list-style-type: none"> • Required effective date: January 1, 2020. Early adoption permitted on January 1, 2019. • The Company established a company-wide, cross-discipline governance structure to implement the new standard. The Company is currently identifying key interpretive issues and is comparing existing credit loss forecasting models and processes with the new guidance to determine what modifications may be required. • While the Company is currently evaluating the impact the standard will have on its Consolidated Financial Statements, the Company expects the standard will result in an earlier recognition of credit losses and an increase in the allowance for credit losses. The magnitude of the increase in the Company’s allowance for loan losses at the adoption date will be dependent upon the nature of the characteristics of the portfolio at the adoption date, as well as macroeconomic conditions and forecasts at that date.
<p>Leases</p> <p>Issued February 2016</p>	<ul style="list-style-type: none"> • Requires lessees to recognize a right-of-use asset and corresponding lease liability for all leases with a lease term of greater than one year. • Requires lessees and lessors to classify most leases using principles similar to existing lease accounting, but eliminates the “bright line” classification tests. • Requires that for finance leases, a lessee recognize interest expense on the lease liability separately from the amortization of the right-of-use asset in the Consolidated Statements of Operations, while for operating leases, such amounts should be recognized as a combined expense. • 	<ul style="list-style-type: none"> • Required effective date: January 1, 2019. Early adoption is permitted. • The Company does not expect early adoption of the new leasing standard. • The Company occupies certain banking offices and equipment under non-cancelable operating lease agreements, which currently are not reflected in its Consolidated Balance Sheets. • The Company expects to report increased assets and liabilities as a result of recognizing right-of-use assets and lease liabilities in its Consolidated Balance Sheets. As of December 31, 2016, the Company was committed to \$809 million of minimum lease payments under non-cancelable operating lease agreements. •

- Requires expanded disclosures about the nature and terms of lease agreements.
 - Requires adoption using a modified cumulative effect approach wherein the guidance is applied to all periods presented.
- The evaluation of the impact of the leasing pronouncement will be adjusted based on execution of new leases, termination of existing leases prior to the effective date, and any changes to key lease assumptions such as renewals, extensions and discount rates.
 - The Company does not expect a material change to the timing of expense recognition in the Consolidated Statements of Operations.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Pronouncement	Summary of Guidance	Effects on Financial Statements
<p>Revenue Recognition: Revenue from Contracts with Customers</p> <p>Issued May 2014</p>	<ul style="list-style-type: none"> • Requires that revenue from contracts with customers be recognized upon transfer of control of a good or service in the amount of consideration expected to be received. • Changes the accounting for certain contract costs including whether they may be offset against revenues in the Consolidated Statements of Operations. • Requires new qualitative and quantitative disclosures, including information about disaggregation of revenue and performance obligations. • May be adopted using a full retrospective approach or a modified cumulative effect approach wherein the guidance is applied only to existing contracts as of the date of initial adoption and to new contracts transacted after that date. 	<ul style="list-style-type: none"> • Required effective date: January 1, 2018. Early adoption is permitted. • The Company plans to adopt the revenue guidance in the first quarter of 2018 using the modified retrospective method. Net interest income on financial assets and liabilities is explicitly excluded from the scope of the pronouncement. • The Company's implementation efforts include the identification of revenue within the scope of the guidance, as well as the evaluation of revenue contracts and related accounting policies. Based on these efforts, the Company has not identified material changes to the timing or amount of revenue recognition. • The Company has substantially completed its evaluation of the expanded disclosure requirements and expects the most significant item will be the disaggregation of revenue.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2 - SECURITIES

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

(in millions)	September 30, 2017				December 31, 2016			
	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 and other	\$12	\$—	\$—	\$12	\$30	\$—	\$—	\$30
State and political subdivisions	7	—	—	7	8	—	—	8
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	19,735	76	(183)	19,628	19,231	78	(264)	19,045
Other/non-agency	337	6	(8)	335	427	2	(28)	401
Total mortgage-backed securities	20,072	82	(191)	19,963	19,658	80	(292)	19,446
Total debt securities available for sale	20,091	82	(191)	19,982	19,696	80	(292)	19,484
Marketable equity securities	—	—	—	—	5	—	—	5
Other equity securities	—	—	—	—	12	—	—	12
Total equity securities available for sale	—	—	—	—	17	—	—	17
Total securities available for sale	\$20,091	\$82	(\$191)	\$19,982	\$19,713	\$80	(\$292)	\$19,501
Securities Held to Maturity								
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	\$3,966	\$18	(\$28)	\$3,956	\$4,126	\$12	(\$44)	\$4,094
Other/non-agency	857	26	—	883	945	19	—	964
Total securities held to maturity	\$4,823	\$44	(\$28)	\$4,839	\$5,071	\$31	(\$44)	\$5,058
Other Investment Securities, at Fair Value								
Money market mutual fund	\$160	\$—	\$—	\$160	\$91	\$—	\$—	\$91
Other investments	5	—	—	5	5	—	—	5
Total other investment securities, at fair value	\$165	\$—	\$—	\$165	\$96	\$—	\$—	\$96
Other Investment Securities, at Cost								
Federal Reserve Bank stock	\$463	\$—	\$—	\$463	\$463	\$—	\$—	\$463
Federal Home Loan Bank stock	302	—	—	302	479	—	—	479
Other equity securities	7	—	—	7	—	—	—	—
Total other investment securities, at cost	\$772	\$—	\$—	\$772	\$942	\$—	\$—	\$942

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following tables present 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:

		September 30, 2017					
		Less than 12 Months		12 Months or Longer		Total	
(dollars in millions)		Number of Fair Value Issues	Gross Unrealized Losses	Number of Fair Value Issues	Gross Unrealized Losses	Number of Fair Value Issues	Gross Unrealized Losses
State and political subdivisions		—	\$—	—	\$—	—	\$—
Mortgage-backed securities:							
Federal agencies and U.S. government sponsored entities		298	13,113 (193)	30	545 (18)	328	13,658 (211)
Other/non-agency		—	—	11	121 (8)	11	121 (8)
Total mortgage-backed securities		298	13,113 (193)	41	666 (26)	339	13,779 (219)
Total		298	\$13,113 (\$193)	41	\$666 (\$26)	339	\$13,779 (\$219)
		December 31, 2016					
		Less than 12 Months		12 Months or Longer		Total	
(dollars in millions)		Number of Fair Value Issues	Gross Unrealized Losses	Number of Fair Value Issues	Gross Unrealized Losses	Number of Fair Value Issues	Gross Unrealized Losses
State and political subdivisions		1	\$8 \$—	—	\$—	1	\$8 \$—
Mortgage-backed securities:							
Federal agencies and U.S. government sponsored entities		323	15,387 (292)	25	461 (16)	348	15,848 (308)
Other/non-agency		4	8 —	20	302 (28)	24	310 (28)
Total mortgage-backed securities		327	15,395 (292)	45	763 (44)	372	16,158 (336)
Total		328	\$15,403 (\$292)	45	\$763 (\$44)	373	\$16,166 (\$336)

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.

If the Company intends to sell the impaired debt security, or if it is more likely than not it will be required to sell the security before recovery, the impairment loss recognized in current period earnings equals the difference between the amortized cost basis and the fair value of the security. If the Company does not intend to sell the impaired debt security, and it is not more likely than not that the Company will be required to sell the impaired security, the other-than-temporary impairment write-down is separated into an amount representing the credit loss which is recognized in current period earnings and the amount related to all other factors, which is recognized in OCI. 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 the type of investment, various market factors affecting the fair value of the security (e.g., interest rates, spread levels, liquidity in the sector, etc.), the length and severity of impairment, and the public credit rating of the instrument.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Company estimates the portion of loss attributable to credit using a collateral loss model and an integrated cash flow engine. The model calculates prepayment, default, and loss severity assumptions using collateral performance data. These assumptions are used to produce cash flows that generate loss projections. These loss projections are reviewed on a quarterly basis by a cross-functional governance committee to determine whether security impairments are other-than-temporary.

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
(in millions)	2017	2016	2017	2016
Cumulative balance at beginning of period	\$79	\$73	\$75	\$66
Credit impairments recognized in earnings on securities that have been previously impaired	1	3	6	11
Reductions due to increases in cash flow expectations on impaired securities ⁽¹⁾	—	(1)	(1)	(2)
Cumulative balance at end of period	\$80	\$75	\$80	\$75

⁽¹⁾ Reported in interest income from investment securities on the Consolidated Statements of Operations.

Cumulative credit losses recognized in earnings for impaired AFS debt securities held as of September 30, 2017 and 2016 were \$80 million and \$75 million, respectively. There were no credit losses recognized in earnings for the Company's HTM portfolio as of September 30, 2017 and 2016.

For the three months ended September 30, 2017 and 2016, the Company incurred non-agency MBS credit-related other-than-temporary impairment losses in earnings of \$1 million and \$3 million, respectively.

For the nine months ended September 30, 2017 and 2016, the Company incurred non-agency MBS credit-related other-than-temporary impairment losses in earnings of \$6 million and \$11 million, respectively. Other-than-temporary impairment losses for the nine months ended September 30, 2016 included the \$5 million impact of a one-time adjustment from a new model implementation. This adjustment is the result of the Company migrating in June 2016 from a proprietary internal process to a vendor-based model to estimate other-than-temporary impairment.

There were no credit impaired debt securities sold during the three and nine months ended September 30, 2017 and 2016. The Company does not currently have the intent to sell these impaired debt securities, and it is not more likely than not 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 September 30, 2017. The unrealized losses on these debt securities reflect non-credit-related factors such as changing interest rates and market liquidity. 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 more likely than not 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.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The amortized cost and fair value of debt securities by contractual maturity as of September 30, 2017 are presented 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)	September 30, 2017				Total
	Distribution of Maturities				
	1	5-10	After		
	Year	Years	10		
	or	Years	Years		
	Less		Years		
Amortized Cost:					
Debt securities available for sale					
U.S. Treasury and other	\$12	\$—	\$—	\$—	\$12
State and political subdivisions	—	—	—	7	7
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	1	169	1,149	18,416	19,735
Other/non-agency	—	25	—	312	337
Total debt securities available for sale	13	194	1,149	18,735	20,091
Debt securities held to maturity					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	3,966	3,966
Other/non-agency	—	—	—	857	857
Total debt securities held to maturity	—	—	—	4,823	4,823
Total amortized cost of debt securities	\$13	\$194	\$1,149	\$23,558	\$24,914
Fair Value:					
Debt securities available for sale					
U.S. Treasury and other	\$12	\$—	\$—	\$—	\$12
State and political subdivisions	—	—	—	7	7
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	1	169	1,166	18,292	19,628
Other/non-agency	—	25	—	310	335
Total debt securities available for sale	13	194	1,166	18,609	19,982
Debt securities held to maturity					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	3,956	3,956
Other/non-agency	—	—	—	883	883
Total debt securities held to maturity	—	—	—	4,839	4,839
Total fair value of debt securities	\$13	\$194	\$1,166	\$23,448	\$24,821

Taxable interest income from investment securities as presented on the Consolidated Statements of Operations was \$155 million and \$146 million for the three months ended September 30, 2017 and 2016, respectively, and was \$469 million and \$432 million for the nine months ended September 30, 2017 and 2016, respectively.

Realized gains and losses on securities are presented below:

Three	Nine
Months	Months
Ended	Ended
September	September

(in millions)	30, 2017	30, 2016	30, 2017	30, 2016
Gains on sale of debt securities	\$2	\$—	\$9	\$13
Losses on sale of debt securities	—	—	—	—
Debt securities gains, net	\$2	\$—	\$9	\$13
Equity securities gains	\$—	\$—	\$1	\$—

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

(in millions)	September 30, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pledged against repurchase agreements	\$459	\$454	\$631	\$620
Pledged against FHLB borrowed funds	864	890	953	972
Pledged against derivatives, to qualify for fiduciary powers, and to secure public and other deposits as required by law	2,866	2,858	3,575	3,563

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 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 Consolidated Balance Sheets. When permitted by GAAP, the Company offsets short-term receivables associated with its reverse repurchase agreements against short-term payables associated with its repurchase agreements. The Company recognized no offsetting of short-term receivables or payables as of September 30, 2017 or December 31, 2016. The Company offsets certain derivative assets and derivative liabilities on the Consolidated Balance Sheets. For further information see Note 10 "Derivatives."

There were \$38 million and \$82 million in securitizations of mortgage loans retained in the investment portfolio for the three and nine months ended September 30, 2017, respectively, and \$16 million and \$21 million for the three and nine months ended September 30, 2016, respectively. These securitizations include a substantive guarantee by a third party. In 2017 the guarantors were Fannie Mae, Freddie Mac, and Ginnie Mae. In 2016, the guarantors were Fannie Mae and Ginnie Mae. These securitizations were accounted for as a sale of the transferred loans and as a purchase of securities. The securities received from the guarantors are classified as AFS.

NOTE 3 - LOANS AND LEASES

The Company's loans and leases are disclosed in portfolio segments and classes. The Company's 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, education, credit cards and other retail. The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others, which the Company now services a portion of internally. A summary of the loans and leases portfolio is presented below:

(in millions)	September 30, 2017	December 31, 2016
	Commercial	\$37,706	$37,274
Commercial real estate	11,426	10,624
Leases	3,249	3,753
Total commercial	52,381	51,651
Residential mortgages	16,619	15,115
Home equity loans	1,483	1,858
Home equity lines of credit	13,555	14,100
Home equity loans serviced by others	599	750
Home equity lines of credit serviced by others	166	219
Automobile	13,311	13,938
Education ⁽¹⁾	8,014	6,610
Credit cards	1,754	1,691
Other retail	2,269	1,737

Total retail	57,770	56,018
Total loans and leases ⁽²⁾ ⁽³⁾	\$110,151	\$107,669

⁽¹⁾ During first quarter 2017, student loans were renamed “education” loans. Refer to Note 1 “Basis of Presentation” for more information.

⁽²⁾ Excluded from the table above are loans held for sale totaling \$1.2 billion and \$625 million as of September 30, 2017 and December 31, 2016, respectively.

⁽³⁾ Mortgage loans serviced for others by the Company’s subsidiaries are not included above, and amounted to \$17.7 billion and \$17.3 billion at September 30, 2017 and December 31, 2016, respectively.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

During the three months ended September 30, 2017, the Company purchased approximately \$63 million of education loans. During the three months ended September 30, 2016, the Company purchased \$222 million of residential mortgages, \$200 million of automobile loans and \$126 million of education loans.

During the nine months ended September 30, 2017, the Company purchased approximately \$795 million of education loans and \$153 million of automobile loans. During the nine months ended September 30, 2016, the Company purchased \$843 million of education loans, \$534 million of automobile loans and \$405 million of residential mortgages.

During the three months ended September 30, 2017, there were no loan portfolio sales. During the three months ended September 30, 2016, the Company sold \$163 million of residential mortgage loans and \$14 million of commercial loans.

During the nine months ended September 30, 2017, the Company sold \$596 million of commercial loans and \$206 million of residential mortgage loans. During the nine months ended September 30, 2016, the Company sold \$444 million of residential mortgage loans and \$132 million of commercial loans.

Additionally, during the three and nine months ended September 30, 2016, the Company sold \$310 million of TDRs, including \$255 million of residential mortgages and \$55 million of home equity loans, which resulted in a pre-tax gain of \$72 million reported in other income on the Consolidated Statements of Operations.

Loans held for sale at fair value as of September 30, 2017 totaled \$500 million and consisted of residential mortgages originated for sale of \$349 million and loans in the commercial trading portfolio of \$151 million. Loans held for sale at fair value as of December 31, 2016 totaled \$583 million and consisted of residential mortgages originated for sale of \$504 million and loans in the commercial trading portfolio of \$79 million.

Other loans held for sale totaled \$724 million and \$42 million as of September 30, 2017 and December 31, 2016, respectively. In September 2017, the Company transferred \$78 million of retail TDRs, including \$49 million of residential mortgages and \$29 million of home equity loans, and \$6 million of commercial TDRs to other loans held for sale. Additionally, other loans held for sale included commercial loans associated with the Company's syndications business of \$640 million as of September 30, 2017 compared with \$42 million as of December 31, 2016.

Loans pledged as collateral for FHLB borrowed funds, primarily residential mortgages loans, totaled \$24.2 billion and \$24.0 billion at September 30, 2017 and December 31, 2016, respectively. Loans pledged as collateral to support the contingent ability to borrow at the FRB discount window, if necessary, totaled \$17.5 billion and \$16.8 billion at September 30, 2017 and December 31, 2016, respectively.

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, 2016, for a detailed discussion of the ALLL reserve methodology 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.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A summary of changes in the allowance for credit losses is presented below:

(in millions)	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Commercial	Retail	Total	Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	\$614	\$605	\$1,219	\$663	\$573	\$1,236
Charge-offs	(12)	(108)	(120)	(60)	(321)	(381)
Recoveries	12	43	55	27	127	154
Net charge-offs	—	(65)	(65)	(33)	(194)	(227)
Provision charged to income	24	46	70	8	207	215
Allowance for loan and lease losses, end of period	638	586	1,224	638	586	1,224
Reserve for unfunded lending commitments, beginning of period	93	—	93	72	—	72
Provision for unfunded lending commitments	2	—	2	23	—	23
Reserve for unfunded lending commitments, end of period	95	—	95	95	—	95
Total allowance for credit losses, end of period	\$733	\$586	\$1,319	\$733	\$586	\$1,319
(in millions)	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Commercial	Retail	Total	Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	\$676	\$570	\$1,246	\$596	\$620	\$1,216
Charge-offs	(33)	(112)	(145)	(53)	(331)	(384)
Recoveries	14	48	62	23	130	153
Net charge-offs	(19)	(64)	(83)	(30)	(201)	(231)
Provision (credited) charged to income	(2)	79	77	89	166	255
Allowance for loan and lease losses, end of period	655	585	1,240	655	585	1,240
Reserve for unfunded lending commitments, beginning of period	61	—	61	58	—	58
Provision for unfunded lending commitments	9	—	9	12	—	12
Reserve for unfunded lending commitments, end of period	70	—	70	70	—	70
Total allowance for credit losses, end of period	\$725	\$585	\$1,310	\$725	\$585	\$1,310

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

(in millions)	September 30, 2017			December 31, 2016		
	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	\$444	\$759	\$1,203	\$424	\$799	\$1,223
Formula-based evaluation	51,937	57,011	108,948	51,227	55,219	106,446
Total	\$52,381	\$57,770	\$110,151	\$51,651	\$56,018	\$107,669

A summary of the allowance for credit losses by evaluation method is presented below:

(in millions)	September 30, 2017			December 31, 2016		
	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	\$46	\$35	\$81	\$63	\$43	\$106
Formula-based evaluation	687	551	1,238	672	530	1,202
Allowance for credit losses	\$733	\$586	\$1,319	\$735	\$573	\$1,308

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 or potential weakness that indicate an increased probability of future loss. "Criticized" loans are grouped into three categories, "special mention,"

“substandard” and “doubtful.” Special mention loans have potential weaknesses that, if left uncorrected, may result in deterioration of the Company’s credit position at some future date.

CITIZENS FINANCIAL GROUP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Substandard loans are inadequately protected loans; these loans have well-defined weaknesses that could hinder normal repayment or collection of the debt. Doubtful loans have the same weaknesses as substandard, with the added characteristics that the possibility of loss is high and collection of the full amount of the loan is improbable. 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 commercial loans and leases based on regulatory classification ratings is presented below:

(in millions)	September 30, 2017				
	Pass	Criticized		Doubtful	Total
		Special Mention	Substandard		
Commercial	\$35,309	\$1,368	\$770	\$259	\$37,706
Commercial real estate	10,737	514	146	29	11,426
Leases	3,155	73	21	—	3,249
Total	\$49,201	\$1,955	\$937	\$288	\$52,381

(in millions)	December 31, 2016				
	Pass	Criticized		Doubtful	Total
		Special Mention	Substandard		
Commercial	\$35,010	\$1,015	\$1,027	\$222	\$37,274
Commercial real estate	10,146	370	58	50	10,624
Leases	3,583	52	103	15	3,753
Total	\$48,739	\$1,437	\$1,188	\$287	\$51,651

The recorded investment in classes of retail loans, categorized by delinquency status is presented below:

(in millions)	September 30, 2017					Total
	Days Past Due					
	Current	1-29	30-59	60-89	90 or More	
Residential mortgages	\$16,323	\$141	\$31	\$10	\$114	\$16,619
Home equity loans	1,306	101	14	6	56	1,483
Home equity lines of credit	12,874	419	54	23	185	13,555
Home equity loans serviced by others	538	32	9	4	16	599
Home equity lines of credit serviced by others	125	20	3	1	17	166
Automobile	11,917	1,087	197	54	56	13,311
Education	7,803	135	23	12	41	8,014
Credit cards	1,673	47	11	8	15	1,754
Other retail	2,170	60	17	12	10	2,269
Total	\$54,729	\$2,042	\$359	\$130	\$510	\$57,770

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(in millions)	December 31, 2016					Total
	Days Past Due					
	Current	1-29	30-59	60-89	90 or More	
Residential mortgages	\$14,807	\$108	\$53	\$12	\$135	\$15,115
Home equity loans	1,628	127	23	7	73	1,858
Home equity lines of credit	13,432	396	57	20	195	14,100
Home equity loans serviced by others	673	41	14	5	17	750
Home equity lines of credit serviced by others	158	25	3	2	31	219
Automobile	12,509	1,177	172	38	42	13,938
Education	6,379	151	24	13	43	6,610
Credit cards	1,611	43	12	9	16	1,691
Other retail	1,676	45	8	4	4	1,737
Total	\$52,873	\$2,113	\$366	\$110	\$556	\$56,018

Nonperforming Assets

The following table presents nonperforming loans and leases and loans accruing and 90 days or more past due:

(in millions)	Nonperforming		Accruing and 90 days or more past due	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
	Commercial	\$297	\$322	\$5	$2
Commercial real estate	28	50	2	—
Leases	—	15	—	—
Total commercial	325	387	7	2
Residential mortgages ⁽¹⁾	124	144	15	18
Home equity loans	76	98	—	—
Home equity lines of credit	236	243	—	—
Home equity loans serviced by others	26	32	—	—
Home equity lines of credit serviced by others	21	33	—	—
Automobile	66	50	—	—
Education	38	38	3	5
Credit card	15	16	—	—
Other retail	5	4	5	1
Total retail	607	658	23	24
Total	\$932	\$1,045	\$30	\$26

⁽¹⁾ Nonperforming balances exclude first lien residential mortgage loans that are 100% guaranteed by the Federal Housing Administration. These loans, which are accruing and 90 days or more past due, totaled \$15 million and \$18 million as of September 30, 2017 and December 31, 2016, respectively. Nonperforming balances also exclude guaranteed residential mortgage loans sold to GNMA for which the Company has the right, but not the obligation, to repurchase. These loans totaled \$28 million and \$32 million as of September 30, 2017 and December 31, 2016, respectively. These loans are consolidated on the Company's Consolidated Balance Sheets.

Other nonperforming assets consist primarily of other real estate owned and are presented in other assets on the Consolidated Balance Sheets. A summary of other nonperforming assets is presented below:

(in millions)	September 30, 2017	December 31, 2016
Nonperforming assets, net of valuation allowance:		
Commercial	\$—	\$—
Retail	37	49
Nonperforming assets, net of valuation allowance	\$37	\$49

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A summary of key performance indicators is presented below:

	September 30, 2017		December 31, 2016	
Nonperforming commercial loans and leases as a percentage of total loans and leases	0.30	%	0.36	%
Nonperforming retail loans as a percentage of total loans and leases	0.55		0.61	
Total nonperforming loans and leases as a percentage of total loans and leases	0.85	%	0.97	%
Nonperforming commercial assets as a percentage of total assets	0.21	%	0.26	%
Nonperforming retail assets as a percentage of total assets	0.43		0.47	
Total nonperforming assets as a percentage of total assets	0.64	%	0.73	%

The recorded investment in mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings are in process was \$179 million and \$177 million as of September 30, 2017 and December 31, 2016, respectively.

An analysis of the age of both accruing and nonaccruing loan and lease past due amounts is presented below:

(in millions)	September 30, 2017				December 31, 2016			
	Days Past Due				Days Past Due			
	30-59	60-89	90 or More	Total	30-59	60-89	90 or More	Total
Commercial	\$39	\$5	\$302	\$346	\$36	\$4	\$324	\$364
Commercial real estate	4	2	30	36	1	2	50	53
Leases	5	—	—	5	1	—	15	16
Total commercial	48	7	332	387	38	6	389	433
Residential mortgages	31	10	114	155	53	12	135	200
Home equity loans	14	6	56	76	23	7	73	103
Home equity lines of credit	54	23	185	262	57	20	195	272
Home equity loans serviced by others	9	4	16	29	14	5	17	36
Home equity lines of credit serviced by others	3	1	17	21	3	2	31	36
Automobile	197	54	56	307	172	38	42	252
Education	23	12	41	76	24	13	43	80
Credit cards	11	8	15	34	12	9	16	37
Other retail	17	12	10	39	8	4	4	16
Total retail	359	130	510	999	366	110	556	1,032
Total	\$407	\$137	\$842	\$1,386	\$404	\$116	\$945	\$1,465

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Impaired loans include nonaccruing larger balance commercial loans (greater than \$3 million carrying value) and commercial and retail TDRs (excluding loans held for sale). A summary of impaired loans by class is presented below:

(in millions)	September 30, 2017				Total Recorded Investment in Impaired Loans
	Impaired Loans With a Related Allowance	Impaired Loans Without a Related Allowance	Unpaid Contractual Balance	Impaired Loans	
Commercial	\$231	\$45	\$185	\$491	\$416
Commercial real estate	24	1	4	39	28
Total commercial	255	46	189	530	444
Residential mortgages	23	2	117	185	140
Home equity loans	42	4	83	167	125
Home equity lines of credit	16	1	181	242	197
Home equity loans serviced by others	31	2	19	60	50
Home equity lines of credit serviced by others	3	—	6	13	9
Automobile	4	—	19	30	23
Education	159	18	20	179	179
Credit cards	25	7	1	26	26
Other retail	5	1	5	11	10
Total retail	308	35	451	913	759
Total	\$563	\$81	\$640	\$1,443	\$1,203

(in millions)	December 31, 2016				Total Recorded Investment in Impaired Loans
	Impaired Loans With a Related Allowance	Impaired Loans Without a Related Allowance	Unpaid Contractual Balance	Impaired Loans	
Commercial	\$247	\$55	\$134	\$431	\$381
Commercial real estate	39	8	4	44	43
Total commercial	286	63	138	475	424
Residential mortgages	37	2	141	235	178
Home equity loans	51	3	94	191	145
Home equity lines of credit	23	1	173	240	196
Home equity loans serviced by others	41	4	19	70	60
Home equity lines of credit serviced by others	2	—	7	13	9
Automobile	4	—	15	25	19
Education	154	25	1	155	155
Credit cards	26	6	—	26	26
Other retail	10	2	1	13	11
Total retail	348	43	451	968	799
Total	\$634	\$106	\$589	\$1,443	\$1,223

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Additional information on impaired loans is presented below:

(in millions)	Three Months Ended	
	September 30,	
	2017	2016
	Average Interest Income Recognized	Average Interest Income Recognized
Commercial	\$1 \$391	\$1 \$340
Commercial real estate	— 33	— 40
Total commercial	1 424	1 380
Residential mortgages	— 137	1 169
Home equity loans	1 125	2 153
Home equity lines of credit	2 192	2 192
Home equity loans serviced by others	— 51	1 64
Home equity lines of credit serviced by others	— 9	— 9
Automobile	— 21	— 17
Education	3 178	1 159
Credit cards	— 25	— 25
Other retail	— 10	1 12
Total retail	6 748	8 800
Total	\$7 \$1,172	\$9 \$1,180

(in millions)	Nine Months Ended September	
	30,	
	2017	2016
	Average Interest Income Recognized	Average Interest Income Recognized
Commercial	\$3 \$402	\$4 \$277
Commercial real estate	— 39	— 53
Total commercial	3 441	4 330
Residential mortgages	3 128	3 161
Home equity loans	4 124	5 151
Home equity lines of credit	5 178	5 182
Home equity loans serviced by others	2 51	3 64
Home equity lines of credit serviced by others	— 9	— 9
Automobile	— 18	— 14
Education	7 178	5 157
Credit cards	1 23	1 25
Other retail	— 10	1 13
Total retail	22 719	23 776
Total	\$25 \$1,160	\$27 \$1,106

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to the borrower's financial difficulties, the Company grants a concession for other than an insignificant time period to the borrower that it would not otherwise consider, the related loan is classified as a TDR. 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, 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

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 less costs to sell, to the loan's recorded investment. Any excess of recorded investment over the present value of expected future cash flows or collateral value is included in the ALLL. 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. For Retail TDR accounts where the expected value of cash flows is utilized, any recorded investment in excess of the present value of expected cash flows is recognized by creating or increasing the ALLL. For Retail TDR accounts assessed based on the fair value of collateral, any portion of the loan's recorded investment in excess of the collateral value less costs to sell is charged off at the time of modification or at the time of subsequent and regularly recurring valuations. Commercial TDRs were \$153 million and \$120 million at September 30, 2017 and December 31, 2016, respectively. Retail TDRs totaled \$759 million and \$799 million at September 30, 2017 and December 31, 2016, respectively. Unfunded commitments tied to TDRs were \$52 million and \$42 million at September 30, 2017 and December 31, 2016, respectively.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The table below summarizes how loans were modified during the three months ended September 30, 2017, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during the three months ended September 30, 2017 and were paid off in full, charged off, or sold prior to September 30, 2017.

(dollars in millions)	Primary Modification Types					
	Interest Rate Reduction ⁽¹⁾		Maturity Extension ⁽²⁾			
	Pre-Modification Number of Contracts Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Number of Contracts Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment		
Commercial	3	\$1	\$1	17	\$8	\$7
Commercial real estate	—	—	—	1	—	—
Leases	—	—	—	—	—	—
Total commercial	3	1	1	18	8	7
Residential mortgages	13	1	2	15	1	2
Home equity loans	25	2	1	—	—	—
Home equity lines of credit	11	1	1	86	11	11
Home equity loans serviced by others	3	—	—	—	—	—
Home equity lines of credit serviced by others	—	—	—	—	—	—
Automobile	28	1	1	8	—	—
Education	—	—	—	—	—	—
Credit cards	66	13	3	—	—	—
Other retail	—	—	—	—	—	—
Total retail	74	18	8	109	12	13
Total	744	\$9	\$9	127	\$20	\$20

(dollars in millions)	Primary Modification Types					
	Other ⁽³⁾		Net Change to ALLL Resulting from Modification		Charge-offs Resulting from Modification	
	Pre-Modification Number of Contracts Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment				
Commercial	7	\$28	\$30	\$—	\$—	
Commercial real estate	1	—	—	—	—	
Leases	—	—	—	—	—	
Total commercial	8	28	30	—	—	
Residential mortgages	38	3	3	(1)	—
Home equity loans	49	3	3	—	—	
Home equity lines of credit	110	6	7	—	1	
Home equity loans serviced by others	11	1	—	—	—	
Home equity lines of credit serviced by others	8	1	—	—	—	
Automobile	39	7	6	—	1	
Education	67	2	2	—	—	
Credit cards	—	—	—	1	—	
Other retail	2	—	—	—	—	
Total retail	677	23	21	—	2	

Total	685	\$51	\$51	\$—	\$2
-------	-----	------	------	-----	-----

(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) Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forgiveness, and capitalizing arrearages. 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 (UNAUDITED)

The table below summarizes how loans were modified during the three months ended September 30, 2016, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during the three months ended September 30, 2016 and were paid off in full, charged off, or sold prior to September 30, 2016.

(dollars in millions)	Primary Modification Types					
	Interest Rate Reduction ⁽¹⁾		Maturity Extension ⁽²⁾			
	Pre-Modification Number of Contracts Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Number of Contracts Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment		
Commercial	3	\$—	\$—	8	\$1	\$1
Commercial real estate	—	—	—	—	—	—
Leases	—	—	—	—	—	—
Total commercial	3	—	—	8	1	1
Residential mortgages	28	3	3	33	6	5
Home equity loans	36	2	2	2	—	1
Home equity lines of credit	20	1	2	56	6	6
Home equity loans serviced by others	7	1	1	—	—	—
Home equity lines of credit serviced by others	2	—	—	1	—	—
Automobile	26	1	1	6	—	—
Education	—	—	—	—	—	—
Credit cards	544	3	3	—	—	—
Other retail	2	—	—	—	—	—
Total retail	665	11	12	98	12	12
Total	668	\$11	\$12	106	\$13	\$13

(dollars in millions)	Primary Modification Types				
	Other ⁽³⁾		Net Change		Charge-offs Resulting from Modification
	Pre-Modification Number of Contracts Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	to ALLL Resulting from Modification		
Commercial	4	\$6	\$5	\$4	\$—
Commercial real estate	—	—	—	—	—
Leases	—	—	—	—	—
Total commercial	4	6	5	4	—
Residential mortgages	55	5	5	—	—
Home equity loans	52	3	3	—	—
Home equity lines of credit	94	8	7	—	1
Home equity loans serviced by others	17	1	1	—	—
Home equity lines of credit serviced by others	6	—	1	—	—
Automobile	264	5	5	—	—
Education	108	2	2	1	—
Credit cards	—	—	—	1	—
Other retail	3	—	—	—	—
Total retail	599	24	24	2	1

Total	603	\$30	\$29	\$6	\$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) Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forgiveness, and capitalizing arrearages. 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.

90

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The table below summarizes how loans were modified during the nine months ended September 30, 2017, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during the nine months ended September 30, 2017 and were paid off in full, charged off, or sold prior to September 30, 2017.

(dollars in millions)	Primary Modification Types					
	Interest Rate Reduction ⁽¹⁾			Maturity Extension ⁽²⁾		
	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	\$2	\$2	35	\$22	\$21
Commercial real estate	—	—	—	1	—	—
Leases	—	—	—	—	—	—
Total commercial	7	2	2	36	22	21
Residential mortgages	56	6	7	50	9	10
Home equity loans	68	4	4	1	—	—
Home equity lines of credit	41	2	2	204	26	26
Home equity loans serviced by others	14	1	1	—	—	—
Home equity lines of credit serviced by others	3	—	—	2	—	—
Automobile	93	2	2	23	—	—
Education	—	—	—	—	—	—
Credit cards	1,850	10	10	—	—	—
Other retail	1	—	—	—	—	—
Total retail	2,126	25	26	280	35	36
Total	2,133	\$27	\$28	316	\$57	\$57

(dollars in millions)	Primary Modification Types					
	Other ⁽³⁾			Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification	
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment			
Commercial	12	\$64	\$65	\$1	\$—	
Commercial real estate	1	—	—	—	—	
Leases	—	—	—	—	—	
Total commercial	13	64	65	1	—	
Residential mortgages	122	13	13	(1)	—
Home equity loans	192	11	11	—	—	
Home equity lines of credit	295	20	20	—	1	
Home equity loans serviced by others	41	2	1	—	—	
Home equity lines of credit serviced by others	21	2	1	—	—	
Automobile	1,017	18	16	—	3	
Education	235	4	4	1	—	
Credit cards	—	—	—	3	—	
Other retail	5	—	—	(1)	—
Total retail	1,928	70	66	2	4	

Total	1,941	\$134	\$131	\$3	\$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) Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forgiveness, and capitalizing arrearages. 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 (UNAUDITED)

The table below summarizes how loans were modified during the nine months ended September 30, 2016, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during the nine months ended September 30, 2016 and were paid off in full, charged off, or sold prior to September 30, 2016.

(dollars in millions)	Primary Modification Types					
	Interest Rate Reduction ⁽¹⁾			Maturity Extension ⁽²⁾		
	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	11	\$1	\$1	62	\$9	\$9
Commercial real estate	—	—	—	—	—	—
Leases	—	—	—	—	—	—
Total commercial	11	1	1	62	9	9
Residential mortgages	53	7	7	49	9	8
Home equity loans	65	4	4	39	4	5
Home equity lines of credit	33	2	3	83	9	9
Home equity loans serviced by others	13	1	1	—	—	—
Home equity lines of credit serviced by others	4	—	—	5	1	1
Automobile	77	2	2	14	—	—
Education	—	—	—	—	—	—
Credit cards	1,625	9	9	—	—	—
Other retail	3	—	—	—	—	—
Total retail	1,873	25	26	190	23	23
Total	1,884	\$26	\$27	252	\$32	\$32

(dollars in millions)	Primary Modification Types					
	Other ⁽³⁾			Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification	
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment			
Commercial	13	\$47	\$46	\$3	\$—	
Commercial real estate	—	—	—	—	—	
Leases	—	—	—	—	—	
Total commercial	13	47	46	3	—	
Residential mortgages	186	20	20	—	—	
Home equity loans	233	14	14	(1)	—
Home equity lines of credit	218	16	15	—	1	
Home equity loans serviced by others	51	2	2	—	—	
Home equity lines of credit serviced by others	19	1	1	—	—	
Automobile	803	15	14	—	1	
Education	405	8	8	3	—	
Credit cards	—	—	—	2	—	
Other retail	11	—	—	—	—	
Total retail	1,926	76	74	4	2	

Total	1,939	\$123	\$120	\$7	\$2
-------	-------	-------	-------	-----	-----

(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) Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forgiveness, and capitalizing arrearages. 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 (UNAUDITED)

The table below summarizes TDRs that defaulted within 12 months of their modification date during the three and nine months ended September 30, 2017 and 2016, respectively. For purposes of this table, a payment default refers to a loan that becomes 90 days or more past due 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 September 30, 2017 and 2016, respectively. 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 September 30, 2017		2016		Nine Months Ended September 30, 2017		2016	
	Number of Contracts	Balance of Defaulted Contracts	Number of Contracts	Balance of Defaulted Contracts	Number of Contracts	Balance of Defaulted Contracts	Number of Contracts	Balance of Defaulted Contracts
Commercial	2	\$4	5	\$1	7	\$5	16	\$4
Commercial real estate	—	—	—	—	1	4	1	—
Total commercial	2	4	5	1	8	9	17	4
Residential mortgages	35	5	57	7	121	15	146	19
Home equity loans	12	—	14	—	35	1	39	3
Home equity lines of credit	55	4	48	4	152	11	93	8
Home equity loans serviced by others	6	—	7	—	16	—	28	1
Home equity lines of credit serviced by others	4	—	3	—	8	—	14	—
Automobile	42	—	43	—	103	1	80	1
Education	5	1	15	—	41	1	46	1
Credit cards	116	—	117	1	344	2	323	2
Other retail	2	—	2	—	4	—	2	—
Total retail	277	10	306	12	824	31	771	35
Total	279	\$14	311	\$13	832	\$40	788	\$39

Concentrations of Credit Risk

Most of the Company's lending 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 September 30, 2017 and December 31, 2016, the Company had a significant amount of loans collateralized by residential and commercial real estate. There were no significant concentration risks 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 tables present balances of loans with these characteristics:

(in millions)	September 30, 2017			
	Residential Mortgages Loans and	Home Equity Loans and Products Serviced	Credit Cards	Education Total

		Lines of Credit	by Others			
High loan-to-value	\$436	\$260	\$319	\$—	\$—	\$1,015
Interest only/negative amortization	1,738	—	—	—	1	1,739
Low introductory rate	—	—	—	165	—	165
Multiple characteristics and other	2	—	—	—	—	2
Total	\$2,176	\$260	\$319	\$165	\$1	\$2,921

93

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(in millions)	December 31, 2016					
	Residential Mortgages and Lines of Credit	Home Equity Loans by Others	Home Equity Products Serviced by Others	Credit Cards	Education	Total
High loan-to-value	\$566	\$550	\$476	\$—	\$—	\$1,592
Interest only/negative amortization	1,582	—	—	—	1	1,583
Low introductory rate	—	—	—	112	—	112
Multiple characteristics and other	3	—	—	—	—	3
Total	\$2,151	\$550	\$476	\$112	\$1	\$3,290

NOTE 5 - VARIABLE INTEREST ENTITIES

The Company makes equity investments in various entities that are considered VIEs. These investments primarily include ownership interests in limited partnerships that sponsor affordable housing projects and ownership interests in limited liability companies that sponsor renewable energy projects. The Company's maximum exposure to loss as a result of its involvement with these entities is limited to the balance sheet carrying amounts of its equity investments. A summary of these investments is presented below:

(in millions)	September 30, 2017	December 31, 2016
LIHTC investment included in other assets	\$898	\$793
LIHTC unfunded commitments included in other liabilities	494	428
Renewable energy investments included in other assets	264	220

Low Income Housing Tax Credit Partnerships

The purpose of the Company's equity investments is to assist in achieving goals of the Community Reinvestment Act and to earn an adequate return of capital. LIHTC partnerships are managed by unrelated general partners that have the power to direct the activities which most significantly affect the performance of the partnerships. The Company is therefore not the primary beneficiary of any LIHTC partnerships. Accordingly, the Company does not consolidate these VIEs and accounts for these investments in other assets on the Consolidated Balance Sheets.

The Company applies the proportional amortization method to account for its LIHTC investments. Under the proportional amortization method, the Company applies a practical expedient and amortizes the initial cost of the investment in proportion to the tax credits received in the current period as compared to the total tax credits expected to be received over the life of the investment. The amortization and tax benefits are included as a component of income tax expense. The tax credits received are reported as a reduction of income tax expense (or increase to income tax benefit) related to these transactions.

The following table presents other information related to the Company's affordable housing tax credit investments:

(in millions)	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
Tax credits included in income tax expense	\$20	\$17	\$63	\$46
Amortization expense included in income tax expense	22	14	67	45
Other tax benefits included in income tax expense	7	2	22	15

No LIHTC investment impairment losses were recognized during the three and nine months ended September 30, 2017 and 2016, respectively.

Renewable Energy Entities

The Company's investments in renewable energy entities provide benefits from a return generated by government incentives plus other tax attributes that are associated with tax ownership (e.g., tax depreciation). As a tax equity investor, the Company does not have the power to direct the activities which most significantly affect

CITIZENS FINANCIAL GROUP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

the performance of these entities and therefore is not the primary beneficiary of any renewable energy entities. Accordingly, the Company does not consolidate these VIEs.

NOTE 6 - 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 for 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 proceeds from the sale of residential mortgages held for sale of \$828 million and \$753 million for the three months ended September 30, 2017 and 2016, respectively, and \$2.4 billion and \$1.8 billion for the nine months ended September 30, 2017 and 2016, respectively.

The Company recognized gains on sales of residential mortgages held for sale of \$25 million and \$26 million for the three months ended September 30, 2017 and 2016, respectively, and \$54 million and \$56 million for the nine months ended September 30, 2017 and 2016, respectively.

Pursuant to the standard representations and warranties obligations discussed above, the Company repurchased residential mortgages totaling \$1 million and \$2 million for the three months ended September 30, 2017 and 2016, respectively. The Company repurchased \$2 million and \$6 million of residential mortgages for the nine months ended September 30, 2017 and 2016, respectively.

Mortgage servicing fees, a component of mortgage banking fees, were \$13 million and \$12 million for the three months ended September 30, 2017 and 2016, respectively, and \$40 million and \$38 million for the nine months ended September 30, 2017 and 2016, respectively.

The Company recorded valuation charge-offs for its MSR's of zero and \$2 million for the three months ended September 30, 2017 and 2016, respectively, and valuation recoveries of \$1 million and charge-offs of \$6 million for the nine months ended September 30, 2017 and 2016, respectively.

MSR's are presented in other assets on the Consolidated Balance Sheets. Changes related to MSR's are presented below:

	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
(in millions)	2017	2016	2017	2016
MSR's:				
Balance as of beginning of period	\$170	\$166	\$167	\$173
Amount capitalized	9	10	28	20
Amortization	(8)	(9)	(24)	(26)
Carrying amount before valuation allowance	171	167	171	167
Valuation allowance for servicing assets:				
Balance as of beginning of period	4	13	5	9
Valuation charge-offs (recoveries)	—	2	(1)	6
Balance at end of period	4	15	4	15
Net carrying value of MSR's	\$167	\$152	\$167	\$152

The fair value of MSR's 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

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Multi Component prepayment model. The Company periodically obtains third-party valuations of its MSR's to assess the reasonableness of the fair value calculated by the valuation model.

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

(dollars in millions)	September 30, 2017		December 31, 2016	
	Weighted Average	Range	Weighted Average	Range
Fair value	\$183	Min Max	\$182	Min Max
Weighted average life (in years)	5.7	2.4 7.0	5.7	2.6 7.3
Weighted average constant prepayment rate	10.8%	9.2% 21.2%	10.8%	8.8% 22.3%
Weighted average discount rate	9.9%	9.1% 12.1%	9.7%	9.1% 12.1%

The key economic assumptions used in estimating the fair value of MSR's capitalized during the period are presented below:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Weighted average life (in years)	6.5	5.7	6.6	5.9
Weighted average constant prepayment rate	10.8%	12.3%	10.2%	11.7%
Weighted average discount rate	9.9%	9.8%	9.9%	9.8%

The sensitivity analysis below presents the impact to current fair value of an immediate 50 basis point and 100 basis point 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, with the effect of a variation in a particular assumption on the fair value of the mortgage servicing rights 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 rates, could result in changes in the discount rates), which may amplify or counteract the sensitivities. The primary risk inherent in the Company's MSR's is an increase in prepayments of the underlying mortgage loans serviced, which is dependent upon market movements of interest rates.

(in millions)	September 30, 2017	December 31, 2016
Prepayment rate:		
Decline in fair value from a 50 basis point decrease in interest rates	\$9	\$9
Decline in fair value from a 100 basis point decrease in interest rates	18	25
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 7 - BORROWED FUNDS

A summary of the Company's short-term borrowed funds is presented below:

(in millions)	September 30, 2017	December 31, 2016
Federal funds purchased	\$—	\$533
Securities sold under agreements to repurchase	453	615
Other short-term borrowed funds	1,505	3,211
Total short-term borrowed funds	\$1,958	\$4,359

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,		As of and for the Year Ended December 31, 2016	
(dollars in millions)	2017	2016	2017	2016	2016	
Weighted-average interest rate at period-end: ⁽¹⁾						
Federal funds purchased and securities sold under agreements to repurchase	—	% 0.03	% —	% 0.03	% 0.26	%
Other short-term borrowed funds (primarily short-term FHLB advances)	1.47	0.63	1.47	0.63	0.94	
Maximum amount outstanding at month-end during the period:						
Federal funds purchased and securities sold under agreements to repurchase ⁽²⁾	\$724	\$1,032	\$1,174	\$1,274	\$1,522	
Other short-term borrowed funds (primarily short-term FHLB advances)	1,755	2,515	3,508	4,764	5,461	
Average amount outstanding during the period:						
Federal funds purchased and securities sold under agreements to repurchase ⁽²⁾	\$733	\$910	\$807	\$922	\$947	
Other short-term borrowed funds (primarily short-term FHLB advances)	1,624	2,564	2,283	3,133	3,207	
Weighted-average interest rate during the period: ⁽¹⁾						
Federal funds purchased and securities sold under agreements to repurchase	0.47	% 0.10	% 0.34	% 0.09	% 0.09	%
Other short-term borrowed funds (primarily short-term FHLB advances)	1.48	0.63	1.22	0.62	0.64	

⁽¹⁾ Rates exclude certain hedging costs.

⁽²⁾ Balances are net of certain short-term receivables associated with reverse repurchase agreements, as applicable.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A summary of the Company's long-term borrowed funds is presented below:

(in millions)	September 30, 2017	December 31, 2016
Parent Company:		
4.150% fixed-rate subordinated debt, due 2022	\$348	\$347
5.158% fixed-to-floating rate subordinated debt, due 2023, converting to floating at 3-month LIBOR + 3.56% and callable beginning June 2018	333	333
3.750% fixed-rate subordinated debt, due 2024	250	250
4.023% fixed-rate subordinated debt, due 2024	42	42
4.350% fixed-rate subordinated debt, due 2025	249	249
4.300% fixed-rate subordinated debt, due 2025	749	749
2.375% fixed-rate senior unsecured debt, due 2021	348	348
Banking Subsidiaries:		
2.300% senior unsecured notes, due 2018 ⁽¹⁾	746	745
2.450% senior unsecured notes, due 2019 ⁽¹⁾	747	747
2.500% senior unsecured notes, due 2019 ⁽¹⁾	743	741
2.250% senior unsecured notes, due 2020 ⁽¹⁾	697	—
Floating-rate senior unsecured notes, due 2020 ⁽¹⁾	299	—
Floating-rate senior unsecured notes, due 2020 ⁽¹⁾	249	—
2.200% senior unsecured notes, due 2020 ⁽¹⁾	498	—
2.550% senior unsecured notes, due 2021 ⁽¹⁾	973	965

Floating-rate senior unsecured notes, due 2022 ⁽¹⁾	249	—
2.650% senior unsecured notes, due 2022 ⁽¹⁾	496	—
Federal Home Loan advances due through 2033	5,361	7,264
Other	23	10
Total long-term borrowed funds	\$13,400	\$12,790

⁽¹⁾ Issued under CBNA's Global Bank Note Program.

The Parent Company's long-term borrowed funds as of September 30, 2017 and December 31, 2016 included principal balances of \$2.3 billion and unamortized deferred issuance costs and/or discounts of (\$6) million and (\$7) million, respectively. The banking subsidiaries' long-term borrowed funds as of September 30, 2017 and December 31, 2016 include principal balances of \$11.1 billion and \$10.5 billion, respectively, with unamortized deferred issuance costs and/or discounts of (\$17) million and (\$12) million, respectively, and hedging basis adjustments of (\$36) million and (\$40) million, respectively. See Note 10 "Derivatives" for further information on the Company's hedging of certain long-term borrowed funds.

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 \$10.4 billion and \$13.4 billion at September 30, 2017 and December 31, 2016, respectively. The Company's available FHLB borrowing capacity was \$6.1 billion and \$2.8 billion at September 30, 2017 and December 31, 2016, 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 September 30, 2017, the Company's unused secured borrowing capacity was approximately \$39.1 billion, which includes unencumbered securities, FHLB borrowing capacity, and FRB discount window capacity.

CITIZENS FINANCIAL GROUP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A summary of maturities for the Company's long-term borrowed funds at September 30, 2017 is presented below:

(in millions)	Parent Company	Banking Subsidiaries	Consolidated
Year			
2018	\$—	\$4,097	\$4,097
2019	—	3,491	3,491
2020	—	1,760	1,760
2021	348	976	1,324
2022	348	750	1,098
2023 and thereafter	1,623	7	1,630
Total	\$2,319	\$11,081	\$13,400

NOTE 8 - STOCKHOLDERS' EQUITY

Preferred Stock

The Company had 100,000,000 shares authorized and 250,000 shares outstanding of \$25.00 par value undesignated preferred stock as of September 30, 2017 and December 31, 2016, respectively. For further detail regarding the terms and conditions of the Company's preferred stock see Note 13 "Stockholders' Equity" to the Company's audited Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2016.

Treasury Stock

During the nine months ended September 30, 2017, the Company repurchased \$485 million, or 13,588,304 shares, of its outstanding common stock. The repurchased shares are held in treasury stock.

NOTE 9 - INCOME TAXES

Income Tax Expense

Income tax expense was \$165 million and \$130 million for the three months ended September 30, 2017 and 2016, respectively, resulting in effective tax rates of 32.2% and 30.5%, respectively. Income tax expense was \$423 million and \$357 million for the nine months ended September 30, 2017 and 2016, respectively, resulting in effective tax rates of 30.0% and 31.9%, respectively.

For the nine months ended September 30, 2017, the effective tax rate compared favorably to the statutory rate of 35% primarily as a result of the impact of the settlement of certain state tax matters and permanent benefits from tax credits and tax-exempt income. For the nine months ended September 30, 2016, the effective tax rate compared favorably to the statutory rate of 35% primarily as a result of permanent benefits from tax credits and tax-exempt income.

Deferred Tax Liability

At September 30, 2017, the Company reported a net deferred tax liability of \$744 million, compared to \$714 million as of December 31, 2016. The increase in the net deferred tax liability is primarily attributable to the tax effect of net unrealized gains on securities and derivatives arising during the period, partially offset by the tax effect of differences in the timing of deductions and income items for financial statement purposes versus taxable income purposes.

Unrecognized Tax Benefits

As a result of the settlement of certain state tax matters, the total amount of unrecognized tax benefits was reduced from \$42 million as of December 31, 2016, to \$7 million as of September 30, 2017.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10 - 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 12 "Fair Value Measurements."

At September 30, 2017, the overall derivative asset value decreased \$31 million and the liability balance decreased by \$417 million from December 31, 2016. These decreases were primarily due to a change in the presentation of variation margin payments in the Consolidated Balance Sheet in 2017. Effective January 3, 2017, variation margin payments made on certain centrally cleared derivative contracts are legally classified as settlement of those derivatives (rather than the posting of collateral). As a result of this change, the Company modified its balance sheet presentation of certain interest rate swaps in 2017, such that the fair value of the swaps and the associated variation margin balances are reported as a single unit of account in derivative assets and/or derivative liabilities. At December 31, 2016, these variation margin balances were characterized as collateral. Variation margin balances legally characterized as collateral are reported in interest-bearing cash and due from banks on the Consolidated Balance Sheets.

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

(in millions)	September 30, 2017			December 31, 2016		
	Notional Amount	Derivative Assets ⁽²⁾	Derivative Liabilities ⁽²⁾	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate contracts	\$17,300	\$6	\$—	\$13,350	\$52	\$193
Derivatives not designated as hedging instruments:						
Interest rate contracts	69,436	502	338	54,656	557	452
Foreign exchange contracts	10,147	146	142	8,039	134	126
Other contracts	1,256	10	5	1,498	16	7
Total derivatives not designated as hedging instruments		658	485		707	585
Gross derivative fair values		664	485		759	778
Less: Gross amounts offset in the Consolidated Balance Sheets ⁽³⁾		(65)	(65)		(106)	(106)
Less: Cash collateral applied ⁽³⁾		(3)	(178)		(26)	(13)
Total net derivative fair values presented in the Consolidated Balance Sheets		\$596	\$242		\$627	\$659

⁽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 contracts, the notional amount is typically not exchanged. Therefore, notional amounts should not be taken as the measure of credit or market risk, as they do not measure the true economic risk of these contracts.

⁽²⁾ Amounts reflect changes in the treatment of variation margin on certain centrally cleared derivatives.

⁽³⁾ Amounts represent the impact of legally enforceable master netting agreements that allow the Company to settle positive and negative positions.

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 activity 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 is 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 deposit liabilities. By

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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.

The Company also uses receive-fixed/pay-floating interest rate swaps to manage the interest rate exposure on its medium-term borrowings.

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. Swap agreements and interest rate option agreements are transacted to effectively minimize 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 currencies. The primary risks associated with these transactions 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 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.

Derivatives designated as hedging instruments

The Company's institutional derivatives portfolio qualifies for hedge accounting treatment. This includes interest rate swaps that are designated in highly effective fair value and 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 treatment 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.

The Company has certain derivative transactions which are designated as fair value or cash flow hedges, described as follows:

Fair value hedges

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

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table presents the effect of fair value hedges on other income:

(in millions)	Amounts Recognized in Other Income for the				
	Three Months Ended September 30, 2017		Three Months Ended September 30, 2016		
	Derivative Item	Hedge Ineffectiveness	Derivative Item	Hedge Ineffectiveness	Hedge Ineffectiveness
Hedges of interest rate risk on borrowings using interest rate swaps	(\$5)\$4	(\$1)	(\$27)\$25	(\$2)	

(in millions)	Amounts Recognized in Other Income for the				
	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016		
	Derivative Item	Hedge Ineffectiveness	Derivative Item	Hedge Ineffectiveness	Hedge Ineffectiveness
Hedges of interest rate risk on borrowings using interest rate swaps	\$5(\$5)	\$—	\$57(\$58)	(\$1)	

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). 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, there are \$7 million in pre-tax net losses on derivative instruments included in OCI expected to be reclassified to net interest income 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.

The following table presents the effect of cash flow hedges on net income and stockholders' equity:

(in millions)	Amounts Recognized for the			
	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Effective portion of (loss) gain recognized in OCI ⁽¹⁾	(\$2)	(\$1)	\$35	\$74
Amounts reclassified from OCI to interest income ⁽²⁾	3	23	23	66
Amounts reclassified from OCI to interest expense ⁽²⁾	1	(8)	(2)	(24)
Amounts reclassified from OCI to other income ⁽³⁾	—	(5)	—	(5)

⁽¹⁾ 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.

⁽²⁾ 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 income or expense

of the underlying hedged item.

⁽³⁾ This includes gains and losses attributable to previously hedged cash flows where the likelihood of occurrence of those cash flows is no longer probable.

Derivatives not designated as hedging instruments

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 designed to meet the hedging and financing needs of the Company's customers. Mark-to-market adjustments to the fair value of these contracts are included in foreign exchange and interest rate products on the Consolidated Statement of Operations. 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.

102

CITIZENS FINANCIAL GROUP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 presents the effect of customer derivatives and economic hedges on noninterest income:

	Amounts Recognized in Noninterest Income for the			
	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
(in millions)				
Customer derivative contracts				
Customer interest rate contracts ⁽¹⁾	\$12	(\$32)	\$92	\$63
Customer foreign exchange contracts ⁽¹⁾	61	17	157	45
Residential loan commitments ⁽²⁾	—	1	3	8
Economic hedges				
Offsetting derivatives transactions to hedge interest rate risk on customer interest rate contracts ⁽¹⁾	(2)	45	(58)	(31)
Offsetting derivatives transactions to hedge foreign exchange risk on customer foreign exchange contracts ⁽¹⁾	(55)	(19)	(140)	(46)
Forward sale contracts ⁽²⁾	(1)	4	(7)	(6)
Total	\$15	\$16	\$47	\$33

⁽¹⁾ Reported in foreign exchange and interest rate products on the Consolidated Statements of Operations.

⁽²⁾ Reported in mortgage banking fees on the Consolidated Statements of Operations.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

A summary of outstanding off-balance sheet arrangements is presented below:

(in millions)	September 30, 2017	December 31, 2016
Undrawn commitments to extend credit	\$61,934	\$60,872
Financial standby letters of credit	2,080	1,892
Performance letters of credit	42	40
Commercial letters of credit	68	43
Marketing rights	41	44
Risk participation agreements	20	19
Residential mortgage loans sold with recourse	7	8
Total	\$64,192	\$62,918

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.

103

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 \$3 million at both September 30, 2017 and December 31, 2016.

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 \$3 million for both the nine months ended September 30, 2017 and for the year ended December 31, 2016; and as of September 30, 2017 is obligated to pay \$41 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-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 was \$20 million and \$19 million at September 30, 2017 and December 31, 2016, respectively. The current amount of credit exposure is spread out over 96 counterparties. RPAs generally have terms ranging from one to five years; however, certain outstanding agreements have terms as long as nine years.

Residential Loans Sold with Recourse

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.

Other Commitments

In first quarter 2017, the Company entered into an agreement to purchase education loans on a quarterly basis beginning with the first quarter 2017 and ending with the fourth quarter 2017. The total minimum and maximum amount of the aggregate purchase principal balance of loans under the terms of the agreement are \$750 million and \$1.5 billion, respectively, and the remaining maximum purchase commitment is \$375 million. The agreement may be extended by written agreement of the parties for an additional four quarters. The agreement will terminate immediately if at any time during its term the aggregate purchase principal balance of loans equals the maximum amount. The Company may also terminate the agreement at will with payment of a termination fee equal to the product of \$1 million times the number of quarters remaining under the agreement.

The Company’s commercial loan trading desk provides 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 balances of unsettled commercial loan trade purchases and sales were \$241 million and \$299

104

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

million, respectively, at September 30, 2017 and \$127 million and \$177 million, respectively, at December 31, 2016. 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 12 “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. The Company is also the subject of investigations, reviews, subpoenas, and regulatory matters arising out of its normal business operations, which, in some instances, relate to concerns about fair lending, unfair and/or deceptive practices, mortgage-related issues, 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, and based on the Company’s experience, 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 Statements of Cash Flows in any particular period. Set out below is a description of significant legal matters involving the Company and its banking subsidiaries. Based on information currently available, the advice of legal counsel and other advisers, and established reserves, management believes that the aggregate 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 banking subsidiaries are subject to extensive laws and regulations concerning unfair or deceptive acts or practices in connection with customer products. Certain of the banking subsidiaries’ past practices have not met applicable standards, and they have implemented and are continuing to implement changes to improve and bring their practices in accordance with regulatory guidance. The Company and its banking subsidiaries have made substantial progress towards full resolution of the legacy regulatory enforcement matters set forth below. As previously reported, the Company and its banking subsidiaries had entered into consent orders in 2015 with certain of their regulators in connection with past deposit reconciliation and billing practices, under which the applicable regulators have provided non-objections to, among other things, restitution plans for affected customers. All financial penalties associated with these regulatory enforcement matters have been paid, and substantially all remediation related to such legacy matters was resolved as of December 31, 2016. Since the Company’s last quarterly report, the regulators notified the Company and its banking subsidiaries that they had terminated the consent orders related to past deposit reconciliation practices after determining that the Company and its banking subsidiaries had satisfied the required actions under the consent orders.

NOTE 12 - FAIR VALUE MEASUREMENTS

As discussed in Note 1 “Significant Accounting Policies,” to the Company’s audited Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2016, 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

105

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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.

The Company elected to account for residential mortgage loans held for sale and certain commercial and commercial real estate 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. Certain commercial and commercial real estate held for sale 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.

Fair Value Option

Residential Mortgage Loans Held for Sale

The fair value of residential mortgage 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 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 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 Statements of Operations. The Company recognized changes in fair value in mortgage banking income of (\$1) million and \$1 million for the three months ended September 30, 2017 and 2016, respectively. The Company recognized changes in fair value in mortgage banking income of \$9 million and \$13 million for the nine months ended September 30, 2017 and 2016, 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.

Commercial and Commercial Real Estate Loans Held for Sale

The fair value of commercial and commercial real estate loans held for sale is estimated using observable prices of 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.

There were no loans in this portfolio that were 90 days or more past due or nonaccruing as of September 30, 2017 and December 31, 2016. 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 other noninterest income on the Consolidated Statements of Operations. 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 11 "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. The Company recognized \$1 million in other noninterest income related to its commercial trading portfolio for the three months ended September 30, 2017 and 2016. The Company recognized \$4 million in other noninterest income related to its commercial trading portfolio for the nine months ended September 30, 2017 and \$3 million for the nine months ended September 30, 2016.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table presents the difference between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale measured at fair value:

(in millions)	September 30, 2017			December 31, 2016		
	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Value Less Unpaid Principal	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Value Less Unpaid Principal
Residential mortgage loans held for sale, at fair value	\$349	\$349	\$—	\$504	\$505	(\$1)
Commercial and commercial real estate loans held for sale, at fair value	151	151	—	79	79	—

Recurring Fair Value Measurements

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

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 under the market or income approach using pricing models. 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 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 specified pool mortgage "pass-through" securities and other debt securities issued by U.S. government-sponsored entities and state and political subdivisions. The pricing models used to value securities under the income approach generally begin with the contractual cash flows of each security and make adjustments based on forecasted prepayment speeds, default rates, and other market-observable information. The adjusted cash flows are then discounted at a rate derived from observed rates of return for comparable assets or liabilities that are traded in the market. Classes of instruments that are valued using this market approach include residential and commercial CMOs.

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 primarily use market observable inputs, such as swap rates and yield curves. The pricing models used to value interest rate swaps calculate the sum of each

107

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

instrument's fixed and variable cash flows, which are then discounted using an appropriate yield curve (i.e., LIBOR or Overnight Index Swap 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 that 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. The 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.

Money Market Mutual Fund

Fair value is determined based upon unadjusted quoted market prices and is considered a Level 1 fair value measurement.

Other investments

The fair values of the Company's other investments are based on security prices in markets that are not active; therefore, these investments are classified as Level 2 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 September 30, 2017:

(in millions)	Total	Level 1	Level 2	Level 3
Securities available for sale:				
Mortgage-backed securities	\$19,963	\$—	\$19,963	\$—
State and political subdivisions	7	—	7	—
U.S. Treasury and other	12	12	—	—
Total securities available for sale	19,982	12	19,970	—
Loans held for sale, at fair value:				
Residential loans held for sale	349	—	349	—
Commercial loans held for sale	151	—	151	—
Total loans held for sale, at fair value	500	—	500	—
Derivative assets⁽¹⁾:				
Interest rate swaps	508	—	508	—
Foreign exchange contracts	146	—	146	—
Other contracts	10	—	10	—
Total derivative assets	664	—	664	—
Other investment securities, at fair value:				
Money market mutual fund	160	160	—	—
Other investments	5	—	5	—
Total other investment securities, at fair value	165	160	5	—
Total assets	\$21,311	\$172	\$21,139	\$—
Derivative liabilities⁽¹⁾:				
Interest rate swaps	\$338	\$—	\$338	\$—
Foreign exchange contracts	142	—	142	—
Other contracts	5	—	5	—

Total derivative liabilities	485	—	485	—
Total liabilities	\$485	\$—	\$485	\$—

⁽¹⁾ Amounts reflect changes in the treatment of variation margin on certain centrally cleared derivatives.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table presents assets and liabilities measured at fair value including gross derivative assets and liabilities on a recurring basis at December 31, 2016:

(in millions)	Total	Level 1	Level 2	Level 3
Securities available for sale:				
Mortgage-backed securities	\$19,446	\$—	\$19,446	\$—
State and political subdivisions	8	—	8	—
Equity securities	17	—	17	—
U.S. Treasury	30	30	—	—
Total securities available for sale	19,501	30	19,471	—
Loans held for sale, at fair value:				
Residential loans held for sale	504	—	504	—
Commercial loans held for sale	79	—	79	—
Total loans held for sale, at fair value	583	—	583	—
Derivative assets:				
Interest rate swaps	609	—	609	—
Foreign exchange contracts	134	—	134	—
Other contracts	16	—	16	—
Total derivative assets	759	—	759	—
Other investment securities, at fair value:				
Money market mutual fund	91	91	—	—
Other investments	5	—	5	—
Total other investment securities, at fair value	96	91	5	—
Total assets	\$20,939	\$121	\$20,818	\$—
Derivative liabilities:				
Interest rate swaps	\$645	\$—	\$645	\$—
Foreign exchange contracts	126	—	126	—
Other contracts	7	—	7	—
Total derivative liabilities	778	—	778	—
Total liabilities	\$778	\$—	\$778	\$—

There were no Level 3 assets measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016.

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. The fair value was calculated using a discounted cash flow model which used assumptions, including weighted-average life, weighted-average constant prepayment rate and weighted-average discount rate. 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, 2016 and Note 6 “Mortgage Banking” for more information.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Foreclosed assets

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

Leased assets

The fair value of assets under operating leases is determined using collateral specific pricing digests, external appraisals, broker opinions, recent sales data from industry equipment dealers, and discounted cash flows derived from the underlying lease agreement. As market data for similar assets and lease agreements is available and used in the valuation, these assets are classified as Level 2 fair value measurement.

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
(in millions)	2017	2016	2017	2016
Impaired collateral-dependent loans	(\$4)	(\$18)	(\$31)	(\$29)
MSRs	—	(2)	1	(6)
Foreclosed assets	(1)	—	(3)	(2)
Leased assets	—	—	(15)	—

The following table presents assets and liabilities measured at fair value on a nonrecurring basis:

(in millions)	September 30, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Impaired collateral-dependent loans	\$300	\$—	\$300	\$—	\$355	\$—	\$355	\$—
MSRs	183	—	—	183	182	—	—	182
Foreclosed assets	32	—	32	—	44	—	44	—
Leased assets	131	—	131	—	158	—	158	—

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):

Securities held to maturity

The fair values of securities classified as HTM are estimated under the market or income approach using the same pricing models as those used to measure the fair value of the Company's AFS securities. For more information, see "Recurring Fair Value Measurements - Securities Available for Sale," within this Note.

Other investment securities, at cost

The cost basis of other investment securities, at cost, such as FHLB stock and FRB stock, is assumed to approximate the fair value of these 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. The stock may only be sold or redeemed at par, and therefore the cost basis represents the best estimate of 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

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

used include observable market-based MBS data and pricing adjustments based on 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.

Other loans held for sale

Balances represent loans that were transferred to other loans held for sale and are reported at the lower of cost or fair value. When applicable, the fair value of other loans held for sale is estimated using one of two methods: a discounted cash flow method or a securitization method (as described above).

Deposits

The fair value of demand deposits, checking with interest accounts, regular savings, money market accounts and other deposits 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 presents the estimated fair value for financial instruments not recorded at fair value in the unaudited interim Consolidated Financial Statements. The carrying amounts are recorded in the Consolidated Balance Sheets under the indicated captions:

(in millions)	September 30, 2017					
	Total	Level 1	Level 2	Level 3		
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:						
Securities held to maturity	\$4,823	\$4,839	\$—	\$—	\$4,823	\$4,839
Other investment securities, at cost	772	772	—	—	772	772
Other loans held for sale	724	724	—	—	—	724
Loans and leases	110,151	110,710	—	—	300	300
Financial Liabilities:						
Deposits	113,235	113,205	—	—	113,235	113,205
Federal funds purchased and securities sold under agreements to repurchase	453	453	—	—	453	453
Other short-term borrowed funds	1,505	1,505	—	—	1,505	1,505
Long-term borrowed funds	13,400	13,543	—	—	13,400	13,543

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(in millions)	December 31, 2016							
	Total	Level 1		Level 2		Level 3		
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value		
Financial Assets:								
Securities held to maturity	\$5,071	\$5,058	\$—	\$—	\$5,071	\$5,058	\$—	\$—
Other investment securities, at cost	942	942	—	—	942	942	—	—
Other loans held for sale	42	42	—	—	—	—	42	42
Loans and leases	107,669	107,537	—	—	355	355	107,314	107,182
Financial Liabilities:								
Deposits	109,804	109,796	—	—	109,804	109,796	—	—
Federal funds purchased and securities sold under agreements to repurchase	1,148	1,148	—	—	1,148	1,148	—	—
Other short-term borrowed funds	3,211	3,211	—	—	3,211	3,211	—	—
Long-term borrowed funds	12,790	12,849	—	—	12,790	12,849	—	—

CITIZENS FINANCIAL GROUP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 13 - REGULATORY MATTERS

As a bank holding company, 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, its primary federal regulator. Under the U.S. Basel III capital framework, the Company and its banking subsidiaries must meet specific minimum requirements for the following ratios: common equity tier 1 capital, tier 1 capital, total capital, and tier 1 leverage. 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.

The following table presents the Company's capital and capital ratios under U.S. Basel III Standardized Transitional rules. Certain Basel III requirements are subject to phase-in through 2019, and were applied to this report of actual regulatory ratios. In addition, the Company has declared itself as an "AOCI opt-out" institution, which means the Company is not required to recognize within regulatory capital the impacts of net unrealized gains and losses included within AOCI for available for sale securities, accumulated net gains and losses on cash-flow hedges, net gains and losses on certain defined benefit pension plan assets, and net unrealized gains and losses on securities held to maturity.

Transitional Basel III

	Actual		Minimum Capital Adequacy		FDIA Requirements	
	Amount	Ratio	Amount	Ratio ⁽⁵⁾	Amount	Ratio
(in millions, except ratio data)						
As of September 30, 2017						
Common equity tier 1 capital ⁽¹⁾	\$14,093	11.1 %	\$7,314	5.750 %	\$8,268	6.5 %
Tier 1 capital ⁽²⁾	14,340	11.3	9,222	7.250	10,176	8.0
Total capital ⁽³⁾	17,560	13.8	11,766	9.250	12,720	10.0
Tier 1 leverage ⁽⁴⁾	14,340	9.9	5,780	4.000	7,225	5.0
As of December 31, 2016						
Common equity tier 1 capital ⁽¹⁾	\$13,822	11.2 %	\$6,348	5.125 %	\$8,051	6.5 %
Tier 1 capital ⁽²⁾	14,069	11.4	8,206	6.625	9,909	8.0
Total capital ⁽³⁾	17,347	14.0	10,683	8.625	12,386	10.0
Tier 1 leverage ⁽⁴⁾	14,069	9.9	5,667	4.000	7,084	5.0

⁽¹⁾ "Common equity tier 1 capital ratio" represents CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

⁽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 U.S. Basel III Standardized approach.

⁽³⁾ "Total capital ratio" is total capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

⁽⁴⁾ "Tier 1 leverage ratio" is tier 1 capital divided by quarterly average total assets as defined under U.S. Basel III Standardized approach.

⁽⁵⁾ "Minimum Capital ratio" includes capital conservation buffer of 1.250% for 2017 and 0.625% for 2016; N/A to Tier 1 leverage.

⁽⁶⁾ Presented for informational purposes. Prompt corrective action provisions apply only to the Company's insured depository institutions - CBNA and CBPA.

Under the FRB's Capital Plan Rule, the Company may only make capital distributions, including payment of dividends, in accordance with a capital plan that has been reviewed by the FRB with no objection.

On April 5, 2017, the Company submitted its 2017 Capital Plan to the Federal Reserve under the annual CCAR process. On June 28, 2017, the FRB informed the Company that it did not object to the Company's 2017 Capital Plan or to its proposed capital actions for the period beginning July 1, 2017 and ending June 30, 2018. The Company's 2017 Capital Plan includes quarterly common dividends of \$0.18 per share through the end of 2017, the potential to raise the quarterly common dividend to \$0.22 per share in 2018, and a share repurchase plan through the second quarter of 2018. The timing and exact amount of future dividends and share repurchases will depend on various factors, including capital position, financial performance and market conditions.

During the three month periods ended September 30, 2017 and 2016, the Company recorded common dividends of \$90 million and \$62 million, respectively, and recorded semi-annual preferred dividends of \$7 million for both periods. During the nine month periods ended September 30, 2017 and 2016, the Company recorded common dividends of \$233 million and \$179 million, respectively, and recorded semi-annual preferred dividends of \$14 million for both periods.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

During the three months ended September 30, 2017 and 2016, the Parent Company repurchased outstanding common shares for \$225 million and \$250 million, respectively. During the nine months ended September 30, 2017 and 2016, the Parent Company repurchased outstanding common shares for \$485 million and \$250 million, respectively.

In accordance with federal and state banking regulations, dividends paid by the Company's banking subsidiaries to the Parent Company are generally limited to the retained earnings of the respective banking subsidiaries unless specifically approved by the appropriate bank regulator.

A financial subsidiary of a national bank is permitted to engage in a broader range of activities, similar to those of a financial holding company. CBNA has two financial subsidiaries, Citizens Securities, Inc., a registered broker-dealer, and RBS Citizens Insurance Agency, Inc., a dormant entity. On March 13, 2014, the OCC determined that CBNA no longer met the conditions to own a financial subsidiary — namely that CBNA must be both well capitalized and well managed. As a result, CBNA entered into an agreement with the OCC pursuant to which it developed and submitted to the OCC a remediation plan setting forth the specific actions it would take to bring itself back into compliance with the conditions to own a financial subsidiary. Since the Company's last quarterly report, the OCC notified CBNA that it had terminated the agreement after considering the actions taken under the remediation plan and determining that CBNA had satisfied the conditions to own a financial subsidiary.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 14 - RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

As of and for the three months ended

September 30,

Net Unrealized (in Losses) on Derivatives	Net Unrealized (Losses) Gains on Securities	Employee Benefit Plans	Total AOCI
---	---	------------------------------	---------------

Balance

at	July 31,	2016	Other	comprehensive	income	before	reclassifications	Other-than-temporary	impairment	not	recognized	in	earnings	on	securities	Amounts	reclassified	from	other	comprehensive	income	Net	other	comprehensive	income	Balance	at	September	30,	2016
----	----------	------	-------	---------------	--------	--------	-------------------	----------------------	------------	-----	------------	----	----------	----	------------	---------	--------------	------	-------	---------------	--------	-----	-------	---------------	--------	---------	----	-----------	-----	------

	\$39	\$166	(\$364)	(\$159)																											
--	------	-------	----------	----------	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

	(28)	—	(29)																												
--	-------	---	-------	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

	3	—	3																												
--	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

	(2)	2	(2)																												
--	------	---	------	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

	(7)	(23)	2	(28)																											
--	------	-------	---	-------	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--