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ly:inherit;font-size:10pt;">\$431 million on a non-consolidated basis, compared to an annual interest burden on existing subordinated debt of approximately \$115 million.

On March 13, 2014, the OCC determined that CBNA no longer meets the condition to own a financial subsidiary — namely that CBNA must be both well capitalized and well managed. A financial subsidiary is permitted to engage in a broader range of activities, similar to those of a financial holding company, than those permissible for a national bank itself. CBNA has two financial subsidiaries, Citizens Securities, Inc., a registered broker-dealer, and RBS Citizens Insurance Agency, Inc., a dormant entity, although it continues to collect commissions on certain outstanding insurance policies. CBNA has entered into an agreement with the OCC (the “OCC Agreement”) pursuant to which the Company has developed and submitted to the OCC a remediation plan, that sets forth the specific actions it will take to bring itself back into compliance with the conditions to own a financial subsidiary and the schedule for achieving that objective. Until CBNA addresses the deficiencies to the OCC’s satisfaction, CBNA will be subject to restrictions on its ability to acquire control or hold an interest in any new financial subsidiary and to commence new activities in any existing financial subsidiary without the prior consent of the OCC. The OCC Agreement provides that if CBNA fails to remediate the deficiencies it may have to divest itself of its financial subsidiaries and comply with any additional limitations or conditions on its conduct as the OCC may impose.

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CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - EXIT COSTS AND RESTRUCTURING RESERVES

For the nine months ended September 30, 2015, the Company incurred \$27 million of restructuring costs, consisting of \$18 million of facilities costs in occupancy, \$6 million in outside services, and \$3 million in salaries and employee benefits, relating to restructuring initiatives designed to enhance operating efficiencies and reduce expense growth. For the year ended December 31, 2014, the Company incurred \$101 million of restructuring costs related to these initiatives, including \$41 million of salaries and employee benefits, \$18 million of facilities costs (including \$6 million of building impairment) in occupancy, \$24 million in outside services, \$6 million in software expense reported in amortization of software, and \$12 million in other operating expenses.

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

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

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

(in millions)	Salaries & Employee Benefits	Occupancy & Equipment	Other	Total
Reserve balance as of January 1, 2014	\$2	\$24	\$—	\$26
Additions	43	24	57	124
Reversals	(1	)(5	)(4	)(10)
Utilization	(21	)(25	)(50	)(96)
Reserve balance as of December 31, 2014	23	18	3	44
Additions	5	18	6	29
Reversals	(2	)(1	)—	(3)
Utilization	(10	)(16	)(6	)(32)
Reserve balance as of September 30, 2015	\$16	\$19	\$3	\$38

NOTE 18 - 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:

(in millions)	Net Unrealized Gains (Losses) on Derivatives	Net Unrealized Gains (Losses) on Securities	Defined Benefit Pension Plans	Total AOCI
Balance at January 1, 2014	(\$298)	(\$91)	(\$259)	(\$648)
Other comprehensive income before reclassifications	137	127	—	264
Other-than-temporary impairment not recognized in earnings on securities	—	(22)	—	(22)
Amounts reclassified from other comprehensive income (loss)	16	(13)	(32)	(29)
Net other comprehensive income	153	92	(32)	213
Balance at September 30, 2014	(\$145)	\$1	(\$291)	(\$435)
Balance at January 1, 2015	(\$69)	\$74	(\$377)	(\$372)
Other comprehensive income before reclassifications	108	41	—	149
Other-than-temporary impairment not recognized in earnings on securities	—	(26)	—	(26)

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Amounts reclassified from other comprehensive (loss) income	(8) (9) 7	(10)
Net other comprehensive income	100	6	7	113	
Balance at September 30, 2015	\$31	\$80	(\$370	) (\$259)

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,		Affected Line Item in the unaudited interim Consolidated Statements of Operations
	2015	2014	2015	2014	
Details about AOCI Components					
Reclassification adjustment for net derivative gains (losses) included in net income:	\$22	\$18	\$57	\$54	Interest income
	(15	) (23	) (44	) (79	) Interest expense
	7	(5	) 13	(25	) Income before income tax expense
	3	(2	) 5	(9	) Income tax expense
	\$4	(\$3	) \$8	(\$16	) Net income
Reclassification of net securities gains (losses) to net income:	\$2	\$2	\$19	\$27	Securities gains, net
	(2	) (1	) (5	) (7	) Net impairment losses recognized in earnings
	—	1	14	20	Income before income tax expense
	—	—	5	7	Income tax expense
	\$—	\$1	\$9	\$13	Net income
Reclassification of changes related to defined benefit pension plans:	(\$3	) \$52	(\$10	) \$49	Salaries and employee benefits
	(3	) 52	(10	) 49	Income before income tax expense
	—	18	(3	) 17	Income tax expense
	(\$3	) \$34	(\$7	) \$32	Net income
Total reclassification gains (losses)	\$1	\$32	\$10	\$29	Net income

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

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net interest income (includes \$7, (\$5), \$13 and (\$25) of AOCI reclassifications, respectively)	\$856	\$820	\$2,532	\$2,461
Provision for credit losses	76	77	211	247
Noninterest income (includes \$0, \$1, \$14 and \$20 of AOCI reclassifications, respectively)	353	341	1,060	1,339
Noninterest expense (includes \$3, (\$52), \$10 and (\$49) of AOCI reclassifications, respectively)	798	810	2,449	2,568
Income before income tax expense	335	274	932	985
Income tax expense (includes \$3, \$16, \$7 and \$15 income tax net expense from reclassification items, respectively)	115	85	313	317
Net income	\$220	\$189	\$619	\$668

NOTE 19 - BUSINESS SEGMENTS

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

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reportable Segments

Segment results are determined based upon the Company's management reporting system, which assigns balance sheet and income statement items to each of the business segments. The process is designed around the Company's organizational and management structure and, accordingly, the results derived are not necessarily comparable with similar information published by other financial institutions. A description of each reportable segment and table of financial results is presented below:

Consumer Banking

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

Commercial Banking

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

Non-segment Operations

Other

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

(in millions)	As of and for the Three Months Ended September 30, 2015			
	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	\$556	\$299	\$1	\$856
Noninterest income	235	100	18	353
Total revenue	791	399	19	1,209
Noninterest expense	623	175	—	798
Profit before provision for credit losses	168	224	19	411
Provision for credit losses	64	3	9	76
Income before income tax expense	104	221	10	335
Income tax expense	36	76	3	115
Net income	\$68	\$145	\$7	\$220
Total average assets	\$53,206	\$43,113	\$38,784	\$135,103

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions)	As of and for the Three Months September 30, 2014			
	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	\$532	\$270	\$18	\$820
Noninterest income	226	104	11	341
Total revenue	758	374	29	1,161
Noninterest expense	609	162	39	810
Profit (loss) before provision for credit losses	149	212	(10)	) 351
Provision for credit losses	66	—	11	77
Income (loss) before income tax expense (benefit)	83	212	(21)	) 274
Income tax expense (benefit)	29	73	(17)	) 85
Net income (loss)	54	139	(4)	) 189
Total average assets	\$49,012	\$38,854	\$40,825	\$128,691

(in millions)	As of and for the Nine Months Ended September 30, 2015			
	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	\$1,633	\$861	\$38	\$2,532
Noninterest income	684	308	68	1,060
Total revenue	2,317	1,169	106	3,592
Noninterest expense	1,832	529	88	2,449
Profit before provision for credit losses	485	640	18	1,143
Provision for credit losses	187	(11)	) 35	211
Income (loss) before income tax expense (benefit)	298	651	(17)	) 932
Income tax expense (benefit)	103	224	(14)	) 313
Net income (loss)	\$195	\$427	(\$3)	) \$619
Total average assets	\$52,438	\$42,451	\$39,766	\$134,655

(in millions)	As of and for the Nine Months Ended September 30, 2014			
	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	\$1,615	\$790	\$56	\$2,461
Noninterest income	681	318	340	1,339
Total revenue	2,296	1,108	396	3,800
Noninterest expense	1,902	472	194	2,568
Profit before provision for credit losses	394	636	202	1,232
Provision for credit losses	195	(7)	) 59	247
Income before income tax expense	199	643	143	985
Income tax expense	69	222	26	317
Net income	130	421	117	668
Total average assets	\$48,398	\$37,951	\$40,249	\$126,598

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

FTP adjustments

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

Provision for credit losses allocations

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

Income tax allocations

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

Expense allocations

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

Goodwill

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

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

NOTE 20 - SHARE-BASED COMPENSATION

During the nine months ended September 30, 2015, the Company granted 1,118,513 Company share-based awards to employees pursuant to the Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan ("Omnibus Plan") with an aggregate grant date fair value of \$28 million, which has been estimated using the fair value of the Company's shares on the grant date. In addition, during the same period, 31,438 Company share-based awards were granted to non-employee directors pursuant to the Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan ("Directors Plan") with an aggregate grant date fair value of \$1 million.

The total number of Company unvested share-based awards as of September 30, 2015 was 3,363,665, which includes awards granted under the Citizens Financial Group, Inc. Converted Equity 2010 Deferral Plan and the Citizens

Financial Group, Inc. Converted Equity 2010 Long Term Incentive Plan (collectively, the “Converted Equity Plans”), the Omnibus Plan, and the Directors Plan. There are 60,893,195 shares of Company common stock available for awards to be granted under the share plans (including the Citizens Financial Group, Inc. 2014 Employee Stock Purchase Plan (the “ESPP”). Upon settlement of share-based awards, the Company generally issues new shares, but may also issue shares from treasury stock.

Compensation Expense

Compensation expense related to the share plans (including the ESPP) was \$7 million and \$10 million for the three months ended September 30, 2015 and 2014.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Compensation expense related to the share plans (including the ESPP) was \$22 million and \$29 million for the nine months ended September 30, 2015 and 2014, respectively.

At September 30, 2015, the total unrecognized compensation expense for nonvested equity awards granted was \$17 million.

Equity Grants Prior to the IPO

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

Restricted Stock Units

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

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

Special IPO Awards

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

Equity Award Conversion

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

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

Employee Share Plans Following the IPO
Omnibus Incentive Plan

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

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

stock units pursuant to the Omnibus Plan. If a dividend is paid on shares underlying the Omnibus Plan awards prior to the date such shares are distributed, those dividends will be distributed following vesting in the same form as the dividend that has been paid to stockholders generally.

Director Compensation Plan

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

Employee Stock Purchase Plan

In connection with the IPO, the Company adopted the ESPP, which provides eligible employees an opportunity to purchase its common stock at a 10% discount, through accumulated payroll deductions. Eligible employees may contribute up to 10% of eligible compensation to the ESPP, up to a maximum purchase of \$25,000 worth of stock in any calendar year. Offering periods under the ESPP are quarterly.

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

NOTE 21 - EARNINGS PER SHARE

(dollars in millions, except share and per-share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Numerator (basic and diluted):				
Net income	\$220	\$189	\$619	\$668
Less: Preferred stock dividends	7	—	7	—
Net income available to common stockholders	\$213	\$189	\$612	\$668
Denominator:				
Weighted-average common shares outstanding - basic	530,985,255	559,998,324	538,279,222	559,998,324
Dilutive common shares: share-based awards	2,412,903	245,423	2,647,139	82,707
Weighted-average common shares outstanding - diluted	533,398,158	560,243,747	540,926,361	560,081,031
Earnings per common share:				
Basic	\$0.40	\$0.34	\$1.14	\$1.19
Diluted	0.40	0.34	1.13	1.19

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

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

CITIZENS FINANCIAL GROUP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - OTHER OPERATING EXPENSE

The following table presents the details of other operating expense:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Deposit insurance	\$28	\$23	\$88	\$69
Promotional expense	25	19	76	60
Settlements and operating losses	10	10	33	74
Postage and delivery	12	12	35	37
Other	58	58	173	199
Other operating expense	\$133	\$122	\$405	\$439

NOTE 23 - SUBSEQUENT EVENTS

On October 29, 2015, the Company announced that RBS launched a registered underwritten public offering to sell all of its remaining shares of CFG's common stock. On November 3, 2015, RBS completed the sale of all of its remaining shares of CFG common stock, 110,461,782 shares, or 20.9% of CFG's outstanding common stock, to the underwriters at a price of \$23.38 per share. In connection with completion of the offering, Mr. Robert Gillespie, who served as RBS's board representative pursuant to the Separation and Shareholder Agreement between the Company and RBS, resigned from the CFG Board of Directors, effective November 3, 2015. The CFG Board of Directors appointed Christine Cumming, former First Vice President and Chief Operating Officer for the Federal Reserve Bank of New York, to the board effective as of October 1, 2015.

On October 22, 2015, the Company announced a quarterly cash dividend of \$0.10 per share, or \$53 million, payable on November 19, 2015 to stockholders of record at the close of business on November 5, 2015.

CITIZENS FINANCIAL GROUP, INC.

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

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CITIZENS FINANCIAL GROUP, INC.
FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

Liabilities and business restrictions resulting from litigation and regulatory investigations;

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

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

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

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

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

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

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

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

In addition to the above factors, we also caution that the amount and timing of any future common stock dividends or share repurchases will depend on our financial condition, earnings, cash needs, regulatory constraints, capital requirements (including requirements of our subsidiaries), and any other factors that our Board of Directors deems relevant in making such a

CITIZENS FINANCIAL GROUP, INC.
FORWARD-LOOKING STATEMENTS

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, 2014.

CITIZENS FINANCIAL GROUP, INC.
SELECTED CONSOLIDATED FINANCIAL DATA

Selected Consolidated Financial Data

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

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

(dollars in millions, except per share amounts)	Three Months Ended		Nine Months Ended		
	September 30, 2015	2014	September 30, 2015	2014	
OPERATING DATA:					
Net interest income	\$856	\$820	\$2,532	\$2,461	
Noninterest income	353	341	1,060	1,339	
Total revenue	1,209	1,161	3,592	3,800	
Provision for credit losses	76	77	211	247	
Noninterest expense	798	810	2,449	2,568	
Income before income tax expense	335	274	932	985	
Income tax expense	115	85	313	317	
Net income	\$220	\$189	\$619	\$668	
Net income available to common stockholders	\$213	\$189	\$612	\$668	
Net income per common share - basic ⁽²⁾	0.40	0.34	1.14	1.19	
Net income per common share - diluted ⁽²⁾	0.40	0.34	1.13	1.19	
OTHER OPERATING DATA:					
Return on average common equity ^{(3) (6)}	4.40	% 3.87	% 4.23	% 4.59	%
Return on average tangible common equity ^{(1) (6)}	6.60	5.81	6.34	6.90	
Return on average total assets ^{(4) (6)}	0.65	0.58	0.62	0.71	
Return on average total tangible assets ^{(1) (6)}	0.68	0.61	0.65	0.74	
Efficiency ratio ⁽¹⁾	66.02	69.84	68.17	67.58	
Net interest margin ^{(5) (6)}	2.76	2.77	2.75	2.84	

CITIZENS FINANCIAL GROUP, INC.
SELECTED CONSOLIDATED FINANCIAL DATA

(in millions)	September 30, 2015	December 31, 2014		
BALANCE SHEET DATA:				
Total assets	\$135,447	\$132,857		
Loans and leases ⁽⁷⁾	97,431	93,410		
Allowance for loan and lease losses	1,201	1,195		
Total securities	24,354	24,704		
Goodwill	6,876	6,876		
Total liabilities	115,847	113,589		
Total deposits	101,866	95,707		
Federal funds purchased and securities sold under agreements to repurchase	1,293	4,276		
Other short-term borrowed funds	5,861	6,253		
Long-term borrowed funds	4,153	4,642		
Total stockholders' equity	19,600	19,268		
OTHER BALANCE SHEET DATA:				
Asset Quality Ratios:				
Allowance for loan and lease losses as a percentage of total loans and leases	1.23	%	1.28	%
Allowance for loan and lease losses as a percentage of nonperforming loans and leases	116		109	
Nonperforming loans and leases as a percentage of total loans and leases	1.06		1.18	
Capital Ratios:⁽⁸⁾				
CET1 capital ratio ⁽⁹⁾	11.8		12.4	
Tier 1 capital ratio ⁽¹⁰⁾	12.0		12.4	
Total capital ratio ⁽¹¹⁾	15.4		15.8	
Tier 1 leverage ratio ⁽¹²⁾	10.4		10.6	

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

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

(3) “Return on average common equity” is defined as net income available to common stockholders divided by average common equity.

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

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

(6) Operating ratios for the periods ended September 30, 2015 and 2014 are presented on an annualized basis.

(7) Excludes loans held for sale of \$420 million and \$281 million as of September 30, 2015 and December 31, 2014, respectively.

(8) 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, 2015 are prepared using the Basel III Standardized transitional approach. The capital ratios and associated components for periods December 31, 2014 and prior are prepared under the Basel I general risk-based capital rule.

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

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

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

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

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

Overview

We are one of the nation's oldest and largest financial institutions, with \$135.4 billion of total assets as of September 30, 2015. Headquartered in Providence, Rhode Island, we deliver a broad range of retail and commercial banking products and services to individuals, institutions and companies. Our approximately 17,800 employees strive to meet the financial needs of customers and prospects through approximately 1,200 branches and approximately 3,200 ATMs operated in 11 states in the New England, Mid-Atlantic and Midwest regions and through our online, telephone and mobile banking platforms. We conduct our banking operations through two wholly-owned banking subsidiaries, Citizens Bank, N.A. and Citizens Bank of Pennsylvania.

We operate our business through two operating segments: Consumer Banking and Commercial Banking. Consumer Banking accounted for \$51.1 billion and \$47.2 billion, or approximately 53% of our average loan and lease balances (including loans held for sale) for both the nine months ended September 30, 2015 and 2014. Consumer Banking serves retail customers and small businesses with annual revenues of up to \$25 million with products and services that include deposit products, mortgage and home equity lending, student loans, auto financing, credit cards, business loans and wealth management and investment services.

Commercial Banking accounted for \$41.2 billion and \$37.3 billion, or approximately 43% and 42% of our average loan and lease balances (including loans held for sale) for the nine months ended September 30, 2015 and 2014, respectively. Commercial Banking offers 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 hedging, leasing and asset finance, specialty finance and trade finance.

As of September 30, 2015 and December 31, 2014, we had \$2.5 billion and \$3.1 billion, respectively, of non-core asset balances, which were included in Other along with our treasury function, securities portfolio, wholesale funding activities, goodwill, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to the Consumer Banking or Commercial Banking segments. Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. We have actively managed these assets down since they were designated as non-core on June 30, 2009, and the portfolio decreased a further 18% as of September 30, 2015 compared to December 31, 2014. The largest component of our non-core portfolio is our home equity products serviced by others (a portion of which we now service internally).

Recent Events

On November 3, 2015, RBS completed the sale of all of its remaining shares of CFG's common stock. In the registered underwritten public offering, RBS sold 110,461,782 shares, or 20.9% of CFG's outstanding common stock, to the underwriters at a price of \$23.38 per share. In connection with completion of the offering, Mr. Robert Gillespie, who served as RBS's board representative, resigned from the CFG Board of Directors, effective November 3, 2015. The CFG Board of Directors appointed Christine Cumming, former First Vice President and Chief Operating Officer for the Federal Reserve Bank of New York, to the board effective as of October 1, 2015. See Note 23 "Subsequent Events" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

Key Factors Affecting Our Business

Macro-economic conditions

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

The U.S. economy continued to expand at a moderate pace, with real GDP rising by 1.5% in the three months ended September 30, 2015, following 3.9% growth in the three months ended June 30, 2015. Growth in household spending has been moderate and the housing sector has shown additional improvement with the three month average of existing home sales rising to 5.5 million units from 5.3 million in the previous quarter. Business fixed investment and net

exports remained soft.

The labor market continued to improve, with moderate job gains and declining unemployment. The U.S. unemployment rate dropped to 5.1% at September 30, 2015 from 5.3% at June 30, 2015. Average monthly nonfarm payrolls increased by 142,000 in September 30, 2015, after increasing a revised 245,000 in June 30, 2015.

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

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

Credit trends

Favorable credit trends continued in the third quarter of 2015 with a year over year decrease in nonperforming loans and net charge-offs. Nonperforming loans improved from 1.19% of total loans at September 30, 2014 to 1.06% at September 30, 2015. Net charge-offs in third quarter 2015 of \$75 million decreased \$13 million from \$88 million in third quarter 2014. Accordingly, annualized net charge-offs as a percentage of total average loans decreased to 0.31% in third quarter 2015, compared to 0.38% in third quarter 2014.

Credit trends remained favorable in the first nine months of 2015 with a year over year reduction in both net charge-offs and nonperforming loans. Net charge-offs in the first nine months of 2015 of \$207 million decreased \$36 million from \$243 million in the first nine months of 2014, driven by favorable credit conditions and higher recoveries. Annualized net charge-offs as a percentage of total average loans improved to 0.29% in the first nine months of 2015, compared to 0.37% in the first nine months of 2014. Asset quality remained strong and within expectations.

Interest rates

Net interest income is our largest source of revenue and is the difference between the interest earned on interest-earning assets (usually loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (usually deposits and borrowings). The level of net interest income is primarily a function of the average balance of interest-earning assets, the average balance of interest-bearing liabilities and the spread between the contractual yield on such assets and the contractual cost of such liabilities. These factors are influenced by both the pricing and mix of interest-earning assets and interest-bearing liabilities which, in turn, are impacted by external factors such as local economic conditions, competition for loans and deposits, the monetary policy of the FRB and market interest rates. For further discussion, refer to “—Risk Governance” and “—Market Risk — Non-Trading Risk”. The cost of our deposits and short-term wholesale borrowings is largely based on short-term interest rates, which are primarily driven by the FRB’s actions. However, the yields generated by our loans and securities are typically driven by both short-term and long-term interest rates, which are set by the market or, at times, by the FRB’s actions. The level of net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. In 2014 and through the nine months ended September 30, 2015, short-term and long-term interest rates remained at very low levels by historical standards, with many benchmark rates, such as the federal funds rate and one- and three-month LIBOR, near zero. Further declines in the yield curve or a decline in longer-term yields relative to short-term yields (a flatter yield curve) would have an adverse impact on our net interest margin and net interest income.

In 2014 and through the nine months ended September 30, 2015, the FRB maintained a highly accommodative monetary policy, and indicated that this policy would remain in effect for a considerable time after its asset purchase program ended on October 29, 2014 and the economic recovery strengthens in the United States. More recently the FRB has discussed ways to normalize monetary policy, specifically steps to raise the federal funds rate and other short-term interest rates to more normal levels. As of September 30, 2015, the FRB had ended its asset purchases of Treasury securities and agency mortgage-backed securities. However, until further notice, the FRB will continue to re-invest runoff from its \$1.7 trillion mortgage-backed portfolio.

Regulatory trends

We are subject to extensive regulation and supervision, which continue to evolve as the legal and regulatory framework governing our operations continues to change. The current operating environment also has heightened regulatory expectations around many regulations including consumer compliance, the Bank Secrecy Act, and

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anti-money laundering compliance and increased internal audit activities. As a result of these heightened expectations, we expect to incur additional costs for additional compliance personnel or professional fees associated with advisors and consultants.

Dodd-Frank regulation

As described under “Regulation and Supervision” in Part I, Item 1 — Business included in our Annual Report on Form 10-K for the year ended December 31, 2014, we are subject to a variety of laws and regulations, including the Dodd-Frank Act.

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

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

In March and July of this year, we published estimated impacts of stress, as required by applicable regulation processes which may be accessed on our regulatory filings and disclosures page on <http://investor.citizensbank.com>. In 2016, we will publish the disclosure requirements in June and October. Consistent with the purpose of these exercises and the assumptions used to assess our performance during hypothetical economic conditions, the projected results under the required stress scenarios show severe negative impacts on earnings. However, these pro forma results should not be interpreted to be management expectations in light of the current economic and operating environment. During March 2015, the Federal Reserve also published results from the latest supervisory stress tests performed for and by large bank holding companies supervised by the Federal Reserve (See FRB website). In 2016, the Federal Reserve is expected to publish results from the 2016 supervisory stress test performed for and by large bank holding companies supervised by the Federal Reserve in June. These tests are conducted and published by the FRB annually in fulfillment of both CCAR and DFAST requirements.

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

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

Comprehensive Capital Analysis and Review

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

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

In March 2015, the FRBG assessed our current capital plan as submitted and documented under the CCAR process and raised no objection to the plan. Unless we choose to file an amended capital plan prior to April 2016, the maximum levels at which we may declare dividends and repurchase shares of our common stock between March 31, 2015 and June 30, 2016 are governed by our 2015 capital plan, subject to actual financial performance and ongoing compliance with internal governance and all other regulatory requirements.

For subsequent cycles, beginning in 2016, BHCs will be required to submit their annual capital plans and stress testing results to the Federal Reserve on or before April 5.

Basel III final rules applicable to us and our banking subsidiaries

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In July 2013, the Federal Reserve Board, OCC, and FDIC issued the U.S. Basel III final rules. The final rules implement the Basel III capital framework and certain provisions of the Dodd-Frank Act, including the Collins Amendment. Certain aspects of the final rules, such as the new minimum capital ratios, became effective on January 1, 2015. In order to comply with the new

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

capital requirements, we established internal capital ratio targets that meet or exceed U.S. regulatory expectations under fully phased-in Basel III rules, and increased our capital requirements in anticipation of the transition that is underway.

HELOC Payment Shock

Recent attention has been given by regulators, rating agencies, and the general press regarding the potential for increased exposure to credit losses associated with HELOCs that were originated during the period of rapid home price appreciation between 2003 and 2007. Industrywide, many of the HELOCs originated during this timeframe were structured with an extended interest-only payment period followed by a requirement to convert to a higher payment amount that would begin fully amortizing both principal and interest beginning at a certain date in the future. As of September 30, 2015, approximately 20% of our \$15.2 billion HELOC portfolio, or \$3.0 billion in drawn balances were subject to a payment reset or balloon payment between October 1, 2015 and December 31, 2017, including \$125 million in balloon balances where full payment is due at the end of a ten-year interest only draw period.

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

As of September 30, 2015, for the \$1.6 billion of our HELOC portfolio that was originally structured with a reset period in 2013 and 2014, 94% of the balances were refinanced, paid off or were current on payments, 3% were past due and 3% had been charged off. As of September 30, 2015, for the \$1.3 billion in balances originally structured with a reset period in 2015, 95% of the balances were refinanced, paid off or were current on payments, 4% were past due and 1% had been charged off. A total of \$194 million of these balances are scheduled to reset in the last three months of 2015. Factors that affect our future expectations for charge-off risk for the portion of our HELOC portfolio subject to reset periods in the future include improved loan-to-value ratios resulting from continued home price appreciation, stable portfolio credit score profiles and more robust loss mitigation efforts.

Factors Affecting Comparability of Our Results

Investment in our business

We regularly incur expenses associated with investments in our infrastructure. For example, from 2010 to 2014, we invested more than \$1.3 billion in infrastructure and technology, and plan to invest a total of \$230 million in 2015 and about \$230 million in 2016. We invested \$147 million in our infrastructure spend in the first nine months of 2015. These investments, which are designed to lower our costs and improve our customer experience, include significant programs to enhance our resiliency, upgrade customer-facing technology and streamline operations. Recent significant investments included the 2013 launch of our new teller system, new commercial loan platform and new auto loan platform and the 2013 upgrade of the majority of our ATM network, including equipping more than 1,450 ATMs with advanced deposit-taking functionality as well as additional investment in our Treasury Services platform in 2014. In the third quarter of 2015 we enhanced our data resiliency via a new back up data center and began rolling out a new mortgage platform. We expect that these investments will increase our long-term overall efficiency and add to our capacity to increase revenue.

Operating expenses to operate as a fully independent public company

As part of our transition to a fully independent public company, we expect to incur cumulative one-time expenditures of approximately \$52 million through the end of 2015, including capitalized costs of approximately \$18 million, as well as ongoing incremental expenses of approximately \$34 million per year. These ongoing costs include higher local charges associated with exiting worldwide vendor relationships and incremental expenses to support information technology, compliance, corporate governance, regulatory, financial and risk infrastructure that are necessary to enable us to operate as a fully independent public company.

Principal Components of Operations and Key Performance Metrics Used by Management

As a banking institution, we manage and evaluate various aspects of both our results of operations and our financial condition. We evaluate the levels and trends of the line items included in our balance sheet and statement of

operations, as well as various financial ratios that are commonly used in our industry. We analyze these ratios and financial trends against our own historical performance, our budgeted performance and the financial condition and performance of comparable banking institutions in our region and nationally.

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

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

Net interest income

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

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

Noninterest income

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

Total revenue

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

Provision for credit losses

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

Noninterest expense

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

Net income

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

Loans and leases

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

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

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

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

Mortgage loans held for sale are carried at fair value.

Securities

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

Allowance for credit losses

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

Deposits

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

Borrowed funds

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

Derivatives

We use pay-fixed swaps to synthetically lengthen liabilities and offset duration in fixed-rate assets. We also use pay-fixed swaps to hedge floating rate wholesale funding.

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

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

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

Key Performance Metrics and Non-GAAP Financial Measures

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

- Return on average common equity, which we define as net income available to common stockholders divided by average common equity;
- Return on average tangible common equity, which we define as 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 net income divided by average total assets;
- Return on average total tangible assets, which we define as net income divided by average total assets excluding average goodwill (net of related deferred tax liability) and average other intangibles;
- Efficiency ratio, which we define as the ratio of our total noninterest expense to the sum of net interest income and total noninterest income. We measure our efficiency ratio to evaluate the efficiency of our operations as it helps us monitor how costs are changing compared to our income. A decrease in our efficiency ratio represents improvement; and
- Net interest margin, which we calculate by dividing annualized net interest income for the period by average total interest-earning assets, is a key measure that we use to evaluate our net interest income.

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

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

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

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

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

(dollars in millions, except per-share amounts)	Ref.	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,		
		2015	2014	2015	2014	
Net income (GAAP)	A	\$220	\$189	\$619	\$668	
Net income available to common stockholders (GAAP)	B	\$213	\$189	\$612	\$668	
Return on average tangible common equity:						
Average common equity (GAAP)		\$19,261	\$19,411	\$19,352	\$19,463	
Less: Average goodwill (GAAP)		6,876	6,876	6,876	6,876	
Less: Average other intangibles (GAAP)		4	6	5	7	
Add: Average deferred tax liabilities related to goodwill (GAAP)		453	384	438	368	
Average tangible common equity (non-GAAP)	C	\$12,834	\$12,913	\$12,909	\$12,948	
Return on average tangible common equity (non-GAAP) ⁽¹⁾	B/C	6.60	% 5.81	% 6.34	% 6.90	%
Return on average total tangible assets:						
Average total assets (GAAP)		\$135,103	\$128,691	\$134,655	\$126,598	
Less: Average goodwill (GAAP)		6,876	6,876	6,876	6,876	
Less: Average other intangibles (GAAP)		4	6	5	7	
Add: Average deferred tax liabilities related to goodwill (GAAP)		453	384	438	368	
Average tangible assets (non-GAAP)	D	\$128,676	\$122,193	\$128,212	\$120,083	
Return on average total tangible assets (non-GAAP) ⁽¹⁾	A/D	0.68	% 0.61	% 0.65	% 0.74	%
Efficiency ratio:						
Noninterest expense (GAAP)	E	\$798	\$810	\$2,449	\$2,568	
Net interest income (GAAP)		856	820	2,532	2,461	
Noninterest income (GAAP)		353	341	1,060	1,339	
Total revenue (GAAP)	F	\$1,209	\$1,161	\$3,592	\$3,800	
Efficiency ratio (non-GAAP)	E/F	66.02	% 69.84	% 68.17	% 67.58	%
Noninterest expense excluding restructuring charges and special items:						
Noninterest expense (GAAP)	G	\$798	\$810	\$2,449	\$2,568	
Less: Restructuring charges (GAAP)		—	1	26	104	
Less: Special items ⁽²⁾		—	20	24	32	
Noninterest expense, excluding restructuring charges and special items (non-GAAP)	H	\$798	\$789	\$2,399	\$2,432	
Net income available to common stockholders, excluding restructuring charges and special items:						
Net income available to common stockholders (GAAP)	B	\$213	\$189	\$612	\$668	
Add: Restructuring charges (GAAP)		—	—	16	64	

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Less: Net gain on the Chicago Divestiture (GAAP)	—	—	—	180	
Add: Special items ⁽²⁾	—	13	15	21	
Net income, excluding restructuring charges and special items (non-GAAP)	I \$213	\$202	\$643	\$573	
Return on average tangible common equity, excluding restructuring charges and special items (non-GAAP)	I/C 6.60	% 6.22	% 6.67	% 5.92	%

(1)

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

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

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

(dollars in millions)	Ref.	As of and for the Three Months Ended September 30, 2015				2014			
		Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated
Net income:									
Net income (loss) (GAAP)	J	\$68	\$145	\$7	\$220	\$54	\$139	(\$4)	\$189
Less: Preferred stock dividends		—	—	7	7	—	—	—	—
Net income available to common stockholders (GAAP)	K	\$68	\$145	\$—	\$213	\$54	\$139	(\$4)	\$189
Efficiency ratio:									
Total revenue (GAAP)	L	\$791	\$399	\$19	\$1,209	\$758	\$374	\$29	\$1,161
Noninterest expense (GAAP)	M	\$623	\$175	\$—	\$798	\$609	\$162	\$39	\$810
Efficiency ratio (non-GAAP)	M/L	78.72 %	43.75 %	NM	66.02 %	80.42 %	43.35 %	NM	69.84 %
Return on average total tangible assets:									
Average total assets (GAAP)		\$53,206	\$43,113	\$38,784	\$135,103	\$49,012	\$38,854	\$40,825	\$128,691
Less: Average goodwill (GAAP)		—	—	6,876	6,876	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	4	4	—	—	6	6
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	453	453	—	—	384	384
Average total tangible assets (non-GAAP)	N	\$53,206	\$43,113	\$32,357	\$128,676	\$49,012	\$38,854	\$34,327	\$122,193
Return on average total tangible assets (non-GAAP) ⁽¹⁾	J/N	0.51 %	1.34 %	NM	0.68 %	0.44 %	1.42 %	NM	0.61 %
Return on average tangible common equity:									

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Average common equity (GAAP) ⁽³⁾		\$4,791	\$4,722	\$9,748	\$19,261	\$4,685	\$4,205	\$10,521	\$19,411	
Less: Average goodwill (GAAP)		—	—	6,876	6,876	—	—	6,876	6,876	
Less: Average other intangibles (GAAP)		—	—	4	4	—	—	6	6	
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	453	453	—	—	384	384	
Average tangible common equity (non-GAAP) ⁽³⁾	O	\$4,791	\$4,722	\$3,321	\$12,834	\$4,685	\$4,205	\$4,023	\$12,913	
Return on average tangible common equity (non-GAAP) ⁽¹⁾⁽³⁾	K/O	5.67	% 12.24	% NM	6.60	% 4.57	% 13.10	% NM	5.81	%

⁽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 common equity tier 1 and then allocate that approximation to the segments based on economic capital.

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

(dollars in millions)	Ref.	As of and for the Nine Months Ended September 30, 2015				2014			
		Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated
Net income:									
Net income (loss) (GAAP)	J	\$195	\$427	(\$3)	\$619	\$130	\$421	\$117	\$668
Less: Preferred stock dividends		—	—	7	7	—	—	—	—
Net income available to common stockholders (GAAP)	K	\$195	\$427	(\$10)	\$612	\$130	\$421	\$117	\$668
Efficiency ratio:									
Total revenue (GAAP)	L	\$2,317	\$1,169	\$106	\$3,592	\$2,296	\$1,108	\$396	\$3,800
Noninterest expense (GAAP)	M	\$1,832	\$529	\$88	\$2,449	\$1,902	\$472	\$194	\$2,568
Efficiency ratio (non-GAAP)	M/L	79.07 %	45.26 %	NM	68.17 %	82.82 %	42.62 %	NM	67.58 %
Return on average total tangible assets:									
Average total assets (GAAP)		\$52,438	\$42,451	\$39,766	\$134,655	\$48,398	\$37,951	\$40,249	\$126,598
Less: Average goodwill (GAAP)		—	—	6,876	6,876	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	5	5	—	—	7	7
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	438	438	—	—	368	368
Average total tangible assets (non-GAAP)	N	\$52,438	\$42,451	\$33,323	\$128,212	\$48,398	\$37,951	\$33,734	\$120,083
Return on average total tangible assets (non-GAAP) ⁽¹⁾	J/N	0.50 %	1.35 %	NM	0.65 %	0.36 %	1.48 %	NM	0.74 %
Return on average tangible common equity:									

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Average common equity (GAAP) ⁽³⁾	\$4,708	\$4,625	\$10,019	\$19,352	\$4,635	\$4,120	\$10,708	\$19,463	
Less: Average goodwill (GAAP)	—	—	6,876	6,876	—	—	6,876	6,876	
Less: Average other intangibles (GAAP)	—	—	5	5	—	—	7	7	
Add: Average deferred tax liabilities related to goodwill (GAAP)	—	—	438	438	—	—	368	368	
Average tangible common equity (non-GAAP) ⁽³⁾	O \$4,708	\$4,625	\$3,576	\$12,909	\$4,635	\$4,120	\$4,193	\$12,948	
Return on average tangible common equity (non-GAAP) ⁽¹⁾⁽³⁾	K/O 5.55	% 12.35	% NM	6.34	% 3.76	% 13.67	% NM	6.90	%

⁽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 common equity tier 1 and then allocate that approximation to the segments based on economic capital.

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

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

Highlights

For the third quarter of 2015:

Net income of \$220 million increased \$31 million, compared to \$189 million in third quarter 2014, driven by a \$13 million decrease in after-tax restructuring charges and special items. As expected, no restructuring charges and special items were recorded in third quarter 2015. Excluding the restructuring charges and special items, net income increased \$18 million, or 9%⁽¹⁾, compared to \$202 million⁽¹⁾ in third quarter 2014;

Net interest income of \$856 million increased \$36 million, or 4%, compared to \$820 million in third quarter 2014, as the benefit of average interest-earning asset growth, improving investment portfolio yields, improving retail loan yields and a reduction in pay-fixed swap costs was partially offset by an increase in deposit costs, continued pressure from the persistent low-rate environment on loan yields, and higher borrowing costs related to the issuance of subordinated debt and senior notes;

- Net interest margin of 2.76% remained relatively stable, compared to 2.77% in third quarter 2014, given the factors mentioned above, as well as the benefit of modest balance sheet deleveraging;

Noninterest income of \$353 million increased \$12 million, or 4%, compared to \$341 million in third quarter 2014, as higher other income, trust and investment services fees, card fees and service charges and fees were partially offset by lower foreign exchange and trade finance fees, mortgage banking fees, and capital markets fees;

Noninterest expense of \$798 million declined \$12 million compared with third quarter 2014 as a \$21 million decrease in restructuring charges and special items was partially offset by higher advertising, insurance and outside services costs. Excluding the restructuring charges and special items, noninterest expense increased \$9 million, as increased other expense and equipment expense were partially offset by lower salaries and employee benefits expense;

- Provision for credit losses of \$76 million remained stable compared to third quarter 2014 as continued improvement in overall credit quality was offset by the impact of loan growth. The third quarter of 2015 included a \$1 million reserve build compared to a \$11 million release in the third quarter of 2014;

Return on average tangible common equity ratio of 6.60%⁽¹⁾ compared to 5.81%⁽¹⁾ in third quarter 2014. Excluding the impact of restructuring charges and special items mentioned above, our return on average tangible common equity improved from 6.22%⁽¹⁾ in third quarter 2014;

Average loans and leases of \$96.8 billion increased \$7.1 billion, or 8%, from \$89.7 billion in third quarter 2014, driven by growth in commercial and commercial real estate, and an increase in auto, student and residential mortgage balances, partially offset by a decrease in home equity balances and a reduction in the non-core loan portfolio;

Average interest-bearing deposits of \$74.2 billion increased \$8.4 billion, or 13%, from \$65.8 billion in third quarter 2014, with growth in all product categories;

Net charge-offs of \$75 million decreased \$13 million, or 15%, from \$88 million in third quarter 2014 as the benefit of continued improvement in asset quality, a reduction in underlying retail net charge-offs and a decrease in non-core net charge-offs was offset by a return to more normalized levels of commercial net charge-offs. The allowance for loan and lease losses of \$1.2 billion remained stable compared to fourth quarter 2014. Allowance for loan and lease losses to total loans and leases was 1.23% as of September 30, 2015, compared with 1.28% as of December 31, 2014.

Allowance for loan and lease losses to non-performing loans and leases ratio was 116% as of September 30, 2015, compared with 109% as of December 31, 2014;

Third quarter 2015 net income available to common stockholders was reduced by \$7 million, or \$0.01 per diluted share, related to preferred dividends; and net income per basic and diluted average common share of \$0.40 compared to \$0.34 in third quarter 2014.

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

Results of Operations — Nine Months Ended September 30, 2015 Compared with Nine Months Ended September 30, 2014

Highlights

For the first nine months of 2015:

Net income of \$619 million decreased \$49 million, compared to \$668 million in the first nine months of 2014, driven by a \$126 million increase in after-tax restructuring charges and special items;

Net income included \$31 million in after-tax restructuring charges and special noninterest expense items, compared with a \$180 million after-tax gain related to the Chicago Divestiture and \$85 million after-tax in restructuring charges and special noninterest expense items in the first nine months of 2014. Excluding the restructuring charges and special items, net income of \$650 million⁽¹⁾ increased \$77 million, or 13%, from \$573 million⁽¹⁾ in the first nine months of 2014;

Net interest income of \$2.5 billion increased \$71 million, or 3%, compared to the first nine months of 2014, as the benefit of earning asset growth and a reduction in pay-fixed swap costs was partially offset by continued pressure from the relatively persistent low-rate environment on loan yields and mix, the effect of the Chicago Divestiture, higher borrowing costs related to debt issuances, and higher deposit costs;

Net interest margin of 2.75% decreased 9 basis points, compared to 2.84% in the first nine months of 2014 given the impact of the continued low-rate environment on loan yields and mix, higher borrowing costs related to the issuance of subordinated debt and senior notes, higher deposit costs and the impact of the Chicago Divestiture;

Noninterest income of \$1.1 billion decreased \$279 million, or 21%, compared to \$1.3 billion in the first nine months of 2014, which included a \$288 million pre-tax gain related to the Chicago Divestiture. Excluding the gain, noninterest income remained relatively stable as strength in mortgage banking and capital markets fee income was offset by lower service charges and fees, card fees, and trust and investment services fees, and lower securities gains;

Noninterest expense of \$2.4 billion was down \$119 million, or 5%, compared with the first nine months of 2014 driven by an \$86 million decrease in restructuring charges and special items, and the impact of the Chicago Divestiture;

Provision for credit losses totaled \$211 million, down \$36 million, or 15%, from \$247 million in the first nine months of 2014, reflecting continued improvement in credit quality and an improvement in total retail net charge-offs;

Return on average tangible common equity ratio of 6.34%⁽¹⁾ compared to 6.90%⁽¹⁾ for the first nine months of 2014. Excluding the impact of restructuring charges and special items mentioned above, our return on average tangible common equity improved to 6.67%⁽¹⁾ from 5.92%⁽¹⁾ in the first nine months of 2014;

Average loans and leases of \$95.5 billion increased \$7.4 billion, or 8%, from \$88.0 billion in the first nine months of 2014, driven by commercial loan growth across most products, and an increase in auto, residential mortgage, and student loans, partially offset by a decrease in home equity balances and a reduction in the non-core loan portfolio;

Average interest-bearing deposits of \$72.1 billion increased \$9.1 billion, or 14%, from \$63.0 billion (excluding deposits held for sale) in the first nine months of 2014, driven by growth in all deposit products;

Net charge-offs of \$207 million decreased \$36 million, or 15%, from \$243 million in the first nine months of 2014 reflecting continued improvement in credit quality and an improvement in total retail net charge-offs. The allowance for loan and lease losses of \$1.2 billion increased \$6 million compared to the fourth quarter of 2014. Allowance for loan and lease losses to total loans and leases was 1.23% as of September 30, 2015, compared with 1.28% as of December 31, 2014. Allowance for loan and lease losses to non-performing loans and leases ratio was 116% as of September 30, 2015, compared with 109% as of December 31, 2014; and

Net income per average common share, basic and diluted, for the first nine months of 2015 was \$1.14 and \$1.13, respectively, compared to \$1.19, basic and diluted, in the first nine months of 2014.

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

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

Net Income

Net income totaled \$220 million in third quarter 2015, compared with third quarter 2014 net income of \$189 million. As expected, we recorded no restructuring charges and special items in third quarter 2015, compared with \$13 million of after-tax restructuring charges and special items in third quarter 2014.

Net income totaled \$619 million in the first nine months of 2015, down \$49 million, or 7%, from \$668 million in the first nine months of 2014, driven by a \$126 million after-tax decrease in restructuring charges and special items. Nine months ended 2014 results included the benefit of a \$180 million after-tax gain related to the Chicago Divestiture and \$85 million of after-tax restructuring charges also related to our separation from RBS and enhanced efficiencies across the organization. Excluding the restructuring charges and special items, net income of \$650 million increased \$77 million, or 13%, from the first nine months of 2014, driven by an \$80 million increase in revenue and \$33 million decrease in noninterest expense

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

(dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	Change	Percent	2015	2014	Change	Percent
Operating Data:								
Net interest income	\$856	\$820	\$36	4%	\$2,532	\$2,461	\$71	3%
Noninterest income	353	341	12	4	1,060	1,339	(279)	(21)
Total revenue	1,209	1,161	48	4	3,592	3,800	(208)	(5)
Provision for credit losses	76	77	(1)	(1)	211	247	(36)	(15)
Noninterest expense	798	810	(12)	(1)	2,449	2,568	(119)	(5)
Noninterest expense, excluding restructuring charges and special items ⁽¹⁾	798	789	9	1	2,399	2,432	(33)	(1)
Income before income tax expense	335	274	61	22	932	985	(53)	(5)
Income tax expense	115	85	30	35	313	317	(4)	(1)
Net income	220	189	31	16	619	668	(49)	(7)
Net income available to common stockholders	213	189	24	13	612	668	(56)	(8)
Net income, excluding restructuring charges and special items ⁽¹⁾	220	202	18	9	650	573	77	13
Net income available to common stockholders, excluding restructuring charges and special items ⁽¹⁾	213	202	11	5	643	573	70	12
Return on average tangible common equity ^{(1) (2)}	6.60	% 5.81	% 79	bps—	6.34	% 6.90	%(56)	) bps—
Return on average tangible common equity, excluding restructuring charges and special items ^{(1) (2)}	6.60	% 6.22	% 38	bps—	6.67	% 5.92	% 75	bps—

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

⁽²⁾ Ratios for the periods ended September 30, 2015 and 2014 are presented on an annualized basis.

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

Net Interest Income

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

(dollars in millions)	Three Months Ended September 30,							
	2015			2014			Change	
	Average Balances	Income/Expenses	Yields/Rates	Average Balances	Income/Expenses	Yields/Rates	Average Balances	Yields/Rates
Assets								
Interest-bearing cash and due from banks and deposits in banks	\$1,322	\$2	0.44 %	\$2,685	\$2	0.23 %	(\$1,363)	21 bps
Taxable investment securities	24,440	154	2.52	24,648	155	2.51	(208)	)1
Non-taxable investment securities	9	—	2.60	10	—	2.59	(1)	)1
Total investment securities	24,449	154	2.52	24,658	155	2.51	(209)	)1
Commercial	32,832	243	2.89	30,186	223	2.89	2,646	—
Commercial real estate	8,406	54	2.50	7,216	46	2.46	1,190	4
Leases	3,936	24	2.45	3,789	25	2.68	147	(23)
Total commercial	45,174	321	2.78	41,191	294	2.80	3,983	(2)
Residential mortgages	12,470	117	3.76	11,001	108	3.92	1,469	(16)
Home equity loans	2,928	40	5.32	3,743	50	5.31	(815)	)1
Home equity lines of credit	14,813	111	2.97	15,572	113	2.90	(759)	)7
Home equity loans serviced by others ⁽¹⁾	1,086	19	6.93	1,317	22	6.64	(231)	)29
Home equity lines of credit serviced by others ⁽¹⁾	425	3	2.30	591	4	2.62	(166)	)32
Automobile	13,810	95	2.75	11,438	74	2.57	2,372	18
Student	3,530	45	5.01	1,983	25	4.99	1,547	2
Credit cards	1,616	44	10.95	1,661	42	9.99	(45)	)96
Other retail	939	17	7.72	1,153	22	7.46	(214)	)26
Total retail	51,617	491	3.79	48,459	460	3.78	3,158	1
Total loans and leases	96,791	812	3.32	89,650	754	3.33	7,141	(1)
Loans held for sale, at fair value	327	3	3.69	176	2	3.46	151	23
Other loans held for sale	128	3	6.96	27	—	5.44	101	NM
Interest-earning assets	123,017	974	3.13	117,196	913	3.08	5,821	5
Allowance for loan and lease losses	(1,197)	)		(1,202)	)		5	
Goodwill	6,876			6,876			—	
Other noninterest-earning assets	6,407			5,821			586	
Total noninterest-earning assets	12,086			11,495			591	
Total assets	\$135,103			\$128,691			\$6,412	
Liabilities and Stockholders' Equity								
Checking with interest	\$16,934	\$5	0.12 %	\$15,155	\$4	0.09 %	\$1,779	3 bps
Money market and savings	44,572	33	0.29	40,096	21	0.21	4,476	8
Term deposits	12,730	27	0.84	10,596	16	0.61	2,134	23
Total interest-bearing deposits	74,236	65	0.34	65,847	41	0.25	8,389	9
Federal funds purchased and securities sold under agreements to repurchase ⁽²⁾	2,880	4	0.52	6,305	9	0.54	(3,425)	)2
Other short-term borrowed funds	5,062	17	1.32	6,740	21	1.21	(1,678)	)11
Long-term borrowed funds	4,059	32	3.16	1,951	22	4.50	2,108	(134)
Total borrowed funds	12,001	53	1.75	14,996	52	1.36	(2,995))39
Total interest-bearing liabilities	86,237	118	0.54	80,843	93	0.45	5,394	9

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Demand deposits	26,754			25,829				925	
Other liabilities	2,604			2,608				(4)
Total liabilities	115,595			109,280				6,315	
Stockholders' equity	19,508			19,411				97	
Total liabilities and stockholders' equity	\$135,103			\$128,691				\$6,412	
Interest rate spread			2.59				2.63		(4)
Net interest income		\$856				\$820			
Net interest margin			2.76 %				2.77 %		(1)bps
Memo: Total deposits (interest-bearing and demand)	\$100,990	\$65	0.25 %	\$91,676	\$41	0.18 %	\$9,314	7 bps	

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

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

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

Net interest income of \$856 million in third quarter 2015 increased \$36 million, or 4%, compared to \$820 million in third quarter 2014, as the benefit of earning asset growth and a reduction in pay-fixed swap costs was partially offset by continued pressure from the relatively persistent low-rate environment on loan yields and mix, higher borrowing costs related to debt issuances, and higher deposit costs.

Average interest-earning assets increased \$5.8 billion, or 5%, from third quarter 2014, as a \$4.0 billion increase in average commercial loans and leases, and a \$3.2 billion increase in average retail loans driven by growth in auto, mortgage, and student loan balances, were partially offset by a \$1.6 billion decrease in average investments and interest-bearing deposits, lower home equity outstandings, and a reduction in the non-core loan portfolio.

Net interest margin of 2.76% in third quarter 2015 remained relatively stable compared to 2.77% in third quarter 2014 as the benefit of modest balance sheet deleveraging, improving investment portfolio yields and a reduction in pay-fixed swap costs was more than offset by increased deposit costs, higher borrowing costs related to the issuance of subordinated debt and senior notes and a modest decrease in loan yields. Average interest-earning asset yields in the third quarter of 2015 of 3.13% declined five basis points from 3.08% for the same period in 2014, reflecting the decline in the loan and lease portfolio yield due to the continued impact of the persistent low-rate environment.

Investment portfolio income of \$154 million in third quarter 2015 remained stable compared to third quarter 2014.

Total interest-bearing deposit costs in third quarter 2015 of \$65 million increased \$24 million, or 59%, from \$41 million in the same period in 2014 and reflected a nine basis point increase in the rate paid to 0.34% from 0.25%. The increase in deposit costs reflected a shift in mix to longer duration deposits, largely term and money market products. The cost of term deposits increased to 0.84% in 2015 from 0.61% in 2014, as money market accounts and savings accounts increased to 0.29% in 2015 from 0.21% in 2014.

Total borrowed funds costs in third quarter 2015 of \$53 million remained relatively stable with third quarter 2014.

Within the federal funds purchased and securities sold under agreement category and other short-term borrowed funds, pay-fixed swap expense declined to \$15 million for the third quarter of 2015 compared to \$21 million for the same period in 2014. Excluding the impact of hedging costs, total borrowed funds rates were 1.40% and 0.76% in the third quarter of 2015 and 2014, respectively. The increase in long-term borrowing expense of \$10 million is due to the addition of \$1.5 billion in senior term-debt in December 2014, as well as the issuance of \$584 million in subordinated debt tied to the repositioning of our liability and capital structure to better align with peers.

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

(dollars in millions)	Nine Months Ended September 30,							Change	
	2015			2014			Average Balances	Yields/Rates	
Assets									
Interest-bearing cash and due from banks and deposits in banks	\$1,820	\$4	0.26 %	\$2,224	\$4	0.23 %	(\$404)	3 bps	
Taxable investment securities	24,824	468	2.52	24,205	458	2.52	619	—	
Non-taxable investment securities	10	—	2.60	11	—	2.60	(1)	—	
Total investment securities	24,834	468	2.52	24,216	458	2.52	618	—	
Commercial	32,536	704	2.85	29,666	671	2.98	2,870	(13)	
Commercial real estate	8,020	155	2.54	7,067	134	2.51	953	3	
Leases	3,909	74	2.51	3,743	77	2.75	166	(24)	
Total commercial	44,465	933	2.77	40,476	882	2.88	3,989	(11)	
Residential mortgages	12,104	342	3.77	10,420	312	3.99	1,684	(22)	
Home equity loans	3,117	126	5.41	3,994	158	5.28	(877)	13	
Home equity lines of credit	15,059	332	2.95	15,572	334	2.87	(513)	8	
Home equity loans serviced by others ⁽¹⁾	1,151	60	6.94	1,386	70	6.72	(235)	22	
Home equity lines of credit serviced by others ⁽¹⁾	479	9	2.45	626	13	2.68	(147)	(23)	
Automobile	13,412	274	2.73	10,542	200	2.53	2,870	20	
Student	3,064	116	5.06	2,150	75	4.63	914	43	
Credit cards	1,620	133	10.99	1,647	124	10.09	(27)	90	
Other retail	988	56	7.64	1,216	67	7.41	(228)	23	
Total retail	50,994	1,448	3.80	47,553	1,353	3.80	3,441	—	
Total loans and leases	95,459	2,381	3.32	88,029	2,235	3.38	7,430	(6)	
Loans held for sale, at fair value	293	8	3.48	146	4	3.44	147	4	
Other loans held for sale	122	7	7.27	715	22	4.10	(593)	NM	
Interest-earning assets	122,528	2,868	3.11	115,330	2,723	3.14	7,198	(3)	
Allowance for loan and lease losses	(1,196)			(1,242)			46		
Goodwill	6,876			6,876			—		
Other noninterest-earning assets	6,447			5,634			813		
Total noninterest-earning assets	12,127			11,268			859		
Total assets	\$134,655			\$126,598			\$8,057		
Liabilities and Stockholders' Equity									
Checking with interest	\$16,515	\$14	0.11 %	\$14,099	\$8	0.07 %	\$2,416	4 bps	
Money market and savings	43,082	87	0.27	39,149	54	0.18	3,933	9	
Term deposits	12,498	76	0.81	9,786	46	0.63	2,712	18	
Total interest-bearing deposits	72,095	177	0.33	63,034	108	0.23	9,061	10	
Interest-bearing deposits held for sale	—	—	—	2,621	4	0.22	(2,621)	(22)	
Federal funds purchased and securities sold under agreements to repurchase ⁽²⁾	3,947	13	0.44	5,908	25	0.55	(1,961)	(11)	
Other short-term borrowed funds	6,169	51	1.09	5,479	70	1.69	690	(60)	
Long-term borrowed funds	3,964	95	3.21	1,594	55	4.57	2,370	(136)	
Total borrowed funds	14,080	159	1.50	12,981	150	1.52	1,099	(2)	

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Total interest-bearing liabilities	86,175	336	0.52	78,636	262	0.44	7,539	8
Demand deposits	26,313			25,540			773	
Demand deposits held for sale	—			618			(618))
Other liabilities	2,654			2,341			313	
Total liabilities	115,142			107,135			8,007	
Stockholders' equity	19,513			19,463			50	
Total liabilities and stockholders' equity	\$134,655			\$126,598			\$8,057	
Interest rate spread			2.59			2.70		(11)
Net interest income		\$2,532			\$2,461			
Net interest margin			2.75 %			2.84 %		(9) bps
Memo: Total deposits (interest-bearing and demand)	\$98,408	\$177	0.24 %	\$91,813	\$112	0.16 %	\$6,595	8 bps

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

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

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

Net interest income of \$2.5 billion in first nine months 2015 increased \$71 million, or 3%, compared to \$2.5 billion in the first nine months of 2014, as the benefit of earning asset growth and a reduction in pay-fixed swap costs was partially offset by continued pressure from the relatively persistent low-rate environment on loan yields and mix, the effect of the Chicago Divestiture, higher borrowing costs related to debt issuances, and higher deposit costs.

Average interest-earning assets increased \$7.2 billion, or 6%, from first nine months 2014, as a \$3.4 billion increase in average retail loans, primarily in auto, mortgage, and student loan balances, and a \$4.0 billion increase in average commercial loans and leases, were partially offset by lower home equity loan and line outstandings and a reduction in the non-core loan portfolio.

Net interest margin of 2.75% in the first nine months of 2015 decreased nine basis points from 2.84% in the first nine months of 2014, reflecting the impact of the continued low-rate environment on loan yields and mix, higher borrowing costs related to the issuance of subordinated debt and senior notes, higher deposit costs, and the impact of the Chicago Divestiture. Average interest-earning asset yields in the first nine months of 2015 of 3.11% declined three basis points from 3.14% for the same period in 2014, reflecting the decline in the loan and lease portfolio yield due to the continued impact of the persistent low-rate environment. Investment portfolio income of \$468 million for the nine months ended September 30, 2015 increased \$10 million, or 2%, compared to the nine months ended September 30, 2014, while the yield on the portfolio remained at 2.52%.

Total interest-bearing deposit costs for the nine months ended September 30, 2015 of \$177 million increased \$69 million, or 64%, from \$108 million in the same period in 2014 and reflected a ten basis point increase in the rate paid on deposits to 0.33% from 0.23%. The increase in cost of deposits reflected strong growth in term deposits and time deposits as well as money market accounts as we actively raised deposits to offset the impact of the second quarter 2014 Chicago Divestiture. The cost of term deposits increased to 0.81% in 2015 from 0.63% in 2014, while rates on money market accounts and savings accounts increased to 0.27% in 2015 from 0.18% in 2014.

Total borrowed funds costs in the first nine months of 2015 of \$159 million increased \$9 million, or 6%, from \$150 million in the same period in 2014. Within the federal funds purchased and securities sold under agreement category and other short-term borrowed funds, pay-fixed swap expense declined to \$44 million for the first nine months of 2015 compared to \$79 million for the same period in 2014. Excluding the impact of hedging costs, total borrowed funds rates of 1.22% in the first six months of 2015 increased from 0.72% in the first nine months of 2014, driven by an increase in senior and subordinated debt tied to the bank's repositioning of its liability and capital structure to better align with peers.

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

Noninterest Income

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

(dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	Change	Percent	2015	2014	Change	Percent
Service charges and fees	\$145	\$144	\$1	1	% \$419	\$430	(\$11)	(3 %)
Card fees	60	58	2	3	172	175	(3)	(2)
Trust and investment services fees	41	39	2	5	118	120	(2)	(2)
Mortgage banking fees	18	21	(3)	(14)	81	55	26	47
Capital markets fees	21	22	(1)	(5)	73	66	7	11
Foreign exchange and trade finance fees	22	26	(4)	(15)	67	70	(3)	(4)
Bank-owned life insurance income	14	13	1	8	40	36	4	11
Securities gains, net	2	2	—	—	19	27	(8)	(30)
Other income ⁽¹⁾	30	16	14	88	71	360	(289)	(80)
Noninterest income	\$353	\$341	\$12	4	% \$1,060	\$1,339	(\$279)	(21 %)

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

Noninterest income of \$353 million in third quarter 2015 increased \$12 million, or 4%, compared to \$341 million in third quarter 2014, driven by higher other income, trust and investment services fees, card fees, and service charges and fees, which were partially offset by lower foreign exchange and trade finance fees, mortgage banking fees, and capital market fees. Other income increased \$14 million driven by an \$8 million gain on the sale of branch real estate. Service charges and fees were relatively stable, and card fees and trust and investment services fees increased \$4 million. Mortgage banking fees decreased \$3 million as a \$7 million decrease in mortgage servicing rights valuations more than offset improved gain on sale spreads.

Noninterest income of \$1.1 billion in the first nine months of 2015 decreased \$279 million, or 21%, compared to \$1.3 billion in the first nine months of 2014, which included a \$288 million pre-tax gain related to the Chicago Divestiture. Excluding the gain, noninterest income increased \$9 million. Service charges and fees decreased \$11 million driven by the effect of the Chicago Divestiture as well as lower transaction volume. Card fees decreased \$3 million and trust and investment services fees decreased \$2 million, reflecting the impact of the Chicago Divestiture and a reduction in investment sales. Mortgage banking fees increased \$26 million reflecting the benefit of portfolio sales gains as well as higher origination volumes. Capital markets fees increased \$7 million, reflecting underlying business momentum. Securities gains decreased \$8 million. Other income, excluding the impact of the \$288 million pre-tax Chicago gain recorded in the second quarter of 2014, decreased \$1 million.

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

Provision for Credit Losses

Provision for credit losses of \$76 million in third quarter 2015 remained relatively stable with \$77 million in third quarter 2014, which benefited from an \$11 million reserve release. Results in the third quarter of 2015 also reflected a \$13 million decrease in net charge-offs, driven by an increase in retail recoveries, compared to third quarter of 2014. Provision for credit losses of \$211 million in the first nine months of 2015 declined \$36 million from the first nine months of 2014. The improvement was composed of a reduction in net charge-offs of \$36 million in the first nine months of 2015, primarily due to lower retail losses. The provision for credit losses includes the provision for loan and lease losses as well as the provision for unfunded commitments.

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

Noninterest Expense

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

(dollars in millions)	Three Months				Nine Months			
	Ended September 30,				Ended September 30,			
	2015	2014	Change	Percent	2015	2014	Change	Percent
Salaries and employee benefits	\$404	\$409	(\$5)	(1 %)	\$1,234	\$1,281	(\$47)	(4 %)
Outside services	89	106	(17)	(16 %)	267	314	(47)	(15 %)
Occupancy	75	77	(2)	(3 %)	245	245	—	—
Equipment expense	62	58	4	7 %	190	187	3	2 %
Amortization of software	35	38	(3)	(8 %)	108	102	6	6 %
Other operating expense	133	122	11	9 %	405	439	(34)	(8 %)
Noninterest expense	\$798	\$810	(\$12)	(1 %)	\$2,449	\$2,568	(\$119)	(5 %)

Noninterest expense of \$798 million in third quarter 2015 declined \$12 million compared with third quarter 2014 driven by a \$21 million decrease in restructuring charges and special items. Excluding the impact of the restructuring charges and special items, noninterest expense increased \$9 million, as a reduction in salaries and employee benefits was more than offset by increased advertising, insurance costs, equipment costs, and outside services. Results reflected the impact of continued investments to drive growth.

Noninterest expense of \$2.4 billion in the first nine months of 2015 declined \$119 million compared with the first nine months of 2014, driven by a \$86 million decrease in restructuring charges and special items. Excluding the impact of the restructuring charges and special items, noninterest expense decreased \$33 million, driven by lower outside services, salaries and employee benefits, occupancy expense, and other operating expense, somewhat offset by higher equipment and amortization of software.

Provision for Income Taxes

The provision for income taxes was \$115 million and \$85 million in the third quarter of 2015 and 2014, respectively. This resulted in an effective tax rate of 34.1% and 30.8% in the third quarter of 2015 and 2014, respectively. The increase in the effective income tax rate from 2014 to 2015 was largely attributable to the tax rate impact of non-deductible permanent expense items.

The provision for income taxes was \$313 million and \$317 million in the first nine months of 2015 and 2014, respectively. This resulted in an effective tax rate of 33.5% and 32.2% in the first nine months of 2015 and 2014, respectively. The increase in the effective income tax rate from 2014 to 2015 was attributable to both the tax rate impact of combined reporting legislation and the adoption of ASU No. 2014-01, “Accounting for Investments in

Qualified Affordable Housing Projects” in the first quarter of 2015. The application of this guidance resulted in the reclassification of the amortization of these investments to income tax expense from noninterest income. Furthermore, these increases were partially offset by the tax rate impact of the gain on the Chicago Divestiture in the second quarter of 2014. For further information regarding the adoption of ASU No. 2014-01, see Recent Accounting Pronouncements in Note 1 “Significant Accounting Policies” to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014.

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

At September 30, 2015, we reported a net deferred tax liability of \$637 million, compared to a \$493 million liability at December 31, 2014. The increase in the net deferred tax liability was primarily attributable to the tax effect of net unrealized gains on securities and derivatives arising during the period and the tax effect of current year timing adjustments. For further discussion, see Note 11 "Income Taxes" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

Business Segments

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

(dollars in millions)	As of and for the Three Months Ended September 30, 2015			
	Consumer Banking	Commercial Banking	Other	(1) Consolidated
Net interest income	\$556	\$299	\$1	\$856
Noninterest income	235	100	18	353
Total revenue	791	399	19	1,209
Noninterest expense	623	175	—	798
Profit before provision for credit losses	168	224	19	411
Provision for credit losses	64	3	9	76
Income before income tax expense	104	221	10	335
Income tax expense	36	76	3	115
Net income	\$68	\$145	\$7	\$220
Loans and leases and loans held for sale (period-end)	\$52,468	\$42,090	\$3,293	\$97,851
Average Balances:				
Total assets	\$53,206	\$43,113	\$38,784	\$135,103
Loans and leases and loans held for sale	51,886	41,993	3,367	97,246
Deposits	70,527	24,604	5,859	100,990
Interest-earning assets	51,928	42,070	29,019	123,017
Key Metrics				
Net interest margin (2)	4.25	% 2.81	% NM	2.76 %
Efficiency ratio (3)	78.72	43.75	NM	66.02
Average loans to average deposits ratio (4)	73.57	170.68	NM	96.29
Return on average total tangible assets (2) (3)	0.51	1.34	NM	0.68
Return on average tangible common equity (2) (3) (5)	5.67	12.24	NM	6.60

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

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

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

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

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

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

As of and for the Nine Months Ended September 30,
2015

(dollars in millions)	Consumer Banking	Commercial Banking	Other	(1) Consolidated
Net interest income	\$1,633	\$861	\$38	\$2,532
Noninterest income	684	308	68	1,060
Total revenue	2,317	1,169	106	3,592
Noninterest expense	1,832	529	88	2,449
Profit before provision for credit losses	485	640	18	1,143
Provision for credit losses	187	(11)	35	211
Income (loss) before income tax expense (benefit)	298	651	(17)	932
Income tax expense (benefit)	103	224	(14)	313
Net income (loss)	\$195	\$427	(\$3)	\$619
Loans and leases and loans held for sale (period-end)	\$52,468	\$42,090	\$3,293	\$97,851
Average Balances:				
Total assets	\$52,438	\$42,451	\$39,766	\$134,655
Loans and leases and loans held for sale	51,062	41,240	3,572	95,874
Deposits	69,347	23,094	5,967	98,408
Interest-earning assets	51,100	41,323	30,105	122,528
Key Metrics				
Net interest margin ⁽²⁾	4.27	% 2.78	% NM	2.75 %
Efficiency ratio ⁽³⁾	79.07	45.26	NM	68.17
Average loans to average deposits ratio ⁽⁴⁾	73.63	178.58	NM	97.43
Return on average total tangible assets ^{(2) (3)}	0.50	1.35	NM	0.65
Return on average tangible common equity ^{(2) (3) (5)}	5.55	12.35	NM	6.34

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

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

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

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

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

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

Other includes our treasury function, securities portfolio, wholesale funding activities, goodwill and goodwill impairment, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to Consumer Banking or Commercial Banking. Other also includes our non-core assets. Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of

geographic location, industry, product type or risk level. The non-core portfolio totaled \$2.5 billion as of September 30, 2015, down 18% from December 31, 2014. The largest component of our non-core portfolio is our home equity products currently or formerly serviced by others portfolio.

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

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

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

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

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

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

Consumer Banking

(dollars in millions)	As of and for the Three Months Ended September 30,				As of and for the Nine Months Ended September 30,				
	2015	2014	Change	Percent	2015	2014	Change	Percent	
Net interest income	\$556	\$532	\$24	5 %	\$1,633	\$1,615	\$18	1	%
Noninterest income	235	226	9	4	684	681	3	—	
Total revenue	791	758	33	4	2,317	2,296	21	1	
Noninterest expense	623	609	14	2	1,832	1,902	(70)	(4)	
Profit before provision for credit losses	168	149	19	13	485	394	91	23	
Provision for credit losses	64	66	(2)	(3)	187	195	(8)	(4)	
Income before income tax expense	104	83	21	25	298	199	99	50	
Income tax expense	36	29	7	24	103	69	34	49	
Net income	\$68	\$54	\$14	26	\$195	\$130	\$65	50	
Loans and leases and loans held for sale (period-end)	\$52,468	\$48,781	\$3,687	8	\$52,468	\$48,781	\$3,687	8	
Average Balances:									
Total assets	\$53,206	\$49,012	\$4,194	9 %	\$52,438	\$48,398	\$4,040	8	%
Loans and leases and loans held for sale ⁽¹⁾	51,886	47,848	4,038	8	51,062	47,203	3,859	8	
Deposits and deposits held for sale ⁽²⁾	70,527	65,609	4,918	7	69,347	68,834	513	1	
Interest-earning assets	51,928	47,885	4,043	8	51,100	47,236	3,864	8	
Key Metrics									
Net interest margin ⁽³⁾	4.25	% 4.40	% (15) bps		4.27	% 4.57	% (30) bps		
Efficiency ratio ⁽⁴⁾	78.72	80.42	(170) bps		79.07	82.82	(375) bps		
Average loans to average deposits ratio ⁽⁵⁾	73.57	72.93	64 bps		73.63	68.58	505 bps		
Return on average total tangible assets ⁽³⁾⁽⁴⁾	0.51	0.44	7 bps		0.50	0.36	14 bps		

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Return on average tangible common equity ⁽³⁾ ⁽⁴⁾ ⁽⁶⁾	5.67	4.57	110 bps	5.55	3.76	179 bps
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(1) Average loans held for sale for the nine months ended September 30, 2014 include loans relating to the Chicago Divestiture.

(2) Average deposits held for sale for the nine months ended September 30, 2014 include deposits relating to the Chicago Divestiture.

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

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

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

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

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

Consumer Banking net income of \$68 million for third quarter 2015 increased \$14 million, or 26%, from \$54 million in the third quarter of 2014, reflecting an increase in total revenues somewhat offset by increased noninterest expense. Consumer Banking total revenue of \$791 million in third quarter 2015 increased \$33 million, or 4%, from \$758 million in the third quarter of 2014.

Net interest income of \$556 million in third quarter 2015 increased \$24 million as the benefit of solid loan growth, particularly in auto, student, and mortgage, was partially offset by the effect of the relatively persistent low-rate environment and higher deposit costs. Noninterest income grew \$9 million, as \$8 million in branch real estate gains and increased trust and investment services fees were partially offset by lower mortgage banking fees.

Noninterest expense of \$623 million increased \$14 million, or 2% from third quarter 2014, as higher advertising, regulatory costs, salaries and employee benefits expense and our continued investment in the business to drive further growth, were partially offset by lower credit collection costs, insurance and payroll taxes, outside services expense and the benefit of our continued focus on improving efficiency.

Provision for credit losses of \$64 million in the third quarter of 2015 decreased \$2 million, or 3%, from \$66 million in the third quarter of 2014, reflecting continued improvement in credit quality offset by the impact of loan growth.

Consumer Banking net income of \$195 million for the first nine months of 2015 increased \$65 million, or 50%, from \$130 million in the first nine months of 2014, due to lower expenses which reflected the impact of the Chicago Divestiture as well as our efficiency initiatives and a decrease in regulatory costs.

Consumer Banking total revenue of \$2.3 billion in the first nine months of 2015 increased \$21 million from the first nine months of 2014, driven by higher net interest income and noninterest income.

Net interest income results reflected the benefit of loan growth particularly in auto, residential mortgage, and student partially offset by the effect of the relatively persistent low-rate environment. Noninterest income increased driven by strength in mortgage banking and higher service charges.

Noninterest expense of \$1.8 billion in the first nine months of 2015 decreased \$70 million, or 4%, from the first nine months of 2014, reflecting a combination of cost saving actions and lower operating reserves.

Provision for credit losses of \$187 million in the first nine months of 2015 decreased \$8 million, or 4%, from \$195 million in the first nine months of 2014, reflecting continued improvement in credit quality partially offset by the continued growth in loan balances.

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

Commercial Banking

(dollars in millions)	As of and for the Three Months Ended September 30,				As of and for the Nine Months Ended September 30,			
	2015	2014	Change	Percent	2015	2014	Change	Percent
Net interest income	\$299	\$270	\$29	11 %	\$861	\$790	\$71	9 %
Noninterest income	100	104	(4)	(4)	308	318	(10)	(3)
Total revenue	399	374	25	7	1,169	1,108	61	6
Noninterest expense	175	162	13	8	529	472	57	12
Profit before provision for credit losses	224	212	12	6	640	636	4	1
Provision for credit losses	3	—	3	NM	(11)	(7)	(4)	(57)
Income before income tax expense	221	212	9	4	651	643	8	1
Income tax expense	76	73	3	4	224	222	2	1
Net income	\$145	\$139	\$6	4	\$427	\$421	\$6	1
Loans and leases and loans held for sale (period-end) ⁽¹⁾	\$42,090	\$38,046	\$4,044	11	\$42,090	\$38,046	\$4,044	11
Average Balances:								
Total assets	\$43,113	\$38,854	\$4,259	11 %	\$42,451	\$37,951	\$4,500	12 %
Loans and leases and loans held for sale ⁽¹⁾	41,993	37,787	4,206	11	41,240	37,263	3,977	11
Deposits and deposits held for sale ⁽²⁾	24,604	20,985	3,619	17	23,094	18,941	4,153	22
Interest-earning assets	42,070	37,927	4,143	11	41,323	37,395	3,928	11
Key Metrics								
Net interest margin ⁽³⁾	2.81 %	2.82 %	(1) bps		2.78 %	2.82 %	(4) bps	
Efficiency ratio ⁽⁴⁾	43.75	43.35	40 bps		45.26	42.62	264 bps	
Average loans to average deposits ratio ⁽⁵⁾	170.68	180.06	(938) bps		178.58	196.74	(1,816) bps	
Return on average total tangible assets ⁽³⁾⁽⁴⁾	1.34	1.42	(8) bps		1.35	1.48	(13) bps	
Return on average tangible common equity ⁽³⁾⁽⁴⁾⁽⁶⁾	12.24	13.10	(86) bps		12.35	13.67	(132) bps	

(1) Average loans held for sale for the nine months ended September 30, 2014 include loans relating to the Chicago Divestiture.

(2) Average deposits held for sale for the nine months ended September 30, 2014 include deposits relating to the Chicago Divestiture.

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

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

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

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

allocate that approximation to the segments based on economic capital.

Commercial Banking net income of \$145 million in the third quarter of 2015 increased \$6 million, or 4%, from \$139 million in the third quarter of 2014, as the benefit of a \$25 million increase in total revenue was partially offset by a \$13 million increase in noninterest expense and a \$3 million increase in provision for credit losses.

Net interest income of \$299 million in the third quarter of 2015 increased \$29 million, or 11%, from \$270 million in the third quarter of 2014, reflecting the benefit of a \$4.2 billion increase in average loans and leases, as well as deposit growth, partially offset by yield compression. Loan growth was driven by strength in Commercial Real Estate, Industry Verticals, Corporate Finance, Franchise Finance, and Mid-Corporate.

Noninterest income of \$100 million in the third quarter of 2015 decreased \$4 million or 4% compared to the third quarter of 2014, as growth in service charges and other fees, card fees, and interest rate products was more than offset by a reduction in foreign exchange and trade finance fees, capital market fees and leasing income.

Noninterest expense of \$175 million in the third quarter of 2015 increased \$13 million, or 8%, from \$162 million in the third quarter of 2014, reflecting a reduction in regulatory costs which was more than offset by higher insurance costs, salaries and employee benefits tied to growth initiatives and higher outside services.

Provision for credit losses of \$3 million net in the third quarter of 2015 increased \$3 million from the third quarter of 2014, reflecting higher net charge-offs.

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

Commercial Banking net income of \$427 million in the first nine months of 2015 increased \$6 million, or 1%, compared to the first nine months of 2014, as the benefit of a \$61 million increase in total revenue and a \$4 million decrease in provision for credit losses was partially offset by a \$57 million increase in noninterest expense. Net interest income of \$861 million in the first nine months of 2015 increased \$71 million, or 9%, from \$790 million in the third quarter of 2014, reflecting the benefit of a \$4.0 billion increase in average loan balances and a \$4.2 billion increase in net deposits. Noninterest income of \$308 million in the first nine months of 2015 decreased \$10 million, or 3%, from \$318 million in the first nine months of 2014 as the benefit of an increase in capital markets, interest rate products, and card fees was more than offset by lower leasing income. Noninterest expense of \$529 million in the first nine months of 2015 increased \$57 million, or 12%, from \$472 million in the first nine months of 2014, reflecting increased salary and benefits costs, outside services, and insurance expense. Provision for credit losses resulted in a net recovery of \$11 million in the first nine months of 2015 compared to a net recovery of \$7 million for the first nine months of 2014.

Other

	As of and for the Three Months Ended September 30,				As of and for the Nine Months Ended September 30,			
	2015	2014	Change	Percent	2015	2014	Change	Percent
(dollars in millions)								
Net interest income	\$1	\$18	(\$17)	(94)%	\$38	\$56	(\$18)	(32)%
Noninterest income	18	11	7	64	68	340	(272)	(80)
Total revenue	19	29	(10)	(34)	106	396	(290)	(73)
Noninterest expense	—	39	(39)	(100)	88	194	(106)	(55)
Profit (loss) before provision for credit losses	19	(10)	29	290	18	202	(184)	(91)
Provision for credit losses	9	11	(2)	(18)	35	59	(24)	(41)
Income (loss) before income tax (benefit) expense	10	(21)	31	148	(17)	143	(160)	(112)
Income tax expense (benefit)	3	(17)	20	118	(14)	26	(40)	(154)
Net income (loss)	\$7	(\$4)	\$11	275	(\$3)	\$117	(\$120)	(103)
Loans and leases and loans held for sale (period-end)	\$3,293	\$4,130	(\$837)	(20)	\$3,293	\$4,130	(\$837)	(20)
Average Balances:								
Total assets	\$38,784	\$40,825	(\$2,041)	(5)%	\$39,766	\$40,249	(\$483)	(1)%
Loans and leases and loans held for sale	3,367	4,218	(851)	(20)	3,572	4,424	(852)	(19)
Deposits and deposits held for sale	5,859	5,082	777	15	5,967	4,038	1,929	48
Interest-earning assets	29,019	31,384	(2,365)	(8)	30,105	30,699	(594)	(2)

Other recorded net income of \$7 million in the third quarter of 2015 compared to net loss of \$4 million in the third quarter of 2014, as a reduction in total revenue was more than offset by lower expenses and the benefit of a \$13 million after-tax decrease in restructuring charges and special items. Excluding \$13 million of after-tax restructuring charges and special items in the third quarter of 2014, net income decreased by \$2 million.

Net interest income in the third quarter of 2015 decreased \$17 million to \$1 million compared to \$18 million in the third quarter of 2014. The decrease was driven primarily by an increase in wholesale funding costs, and lower

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non-core loans, partially offset by a reduction in interest rate swap costs.

Noninterest income in the third quarter of 2015 increased \$7 million from the third quarter of 2014 driven by an accounting change for losses on low-income housing investments, offset in income tax expense.

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

Noninterest expense in the third quarter of 2015 decreased \$39 million from the third quarter of 2014 driven by lower restructuring charges and special items and lower employee incentive costs.

The provision for credit losses within Other mainly represents the residual change in the consolidated allowance for credit losses after attributing the respective net charge-offs to the Consumer Banking and Commercial Banking segments. It also includes net charge-offs related to the non-core portfolio. The provision for credit losses in the third quarter of 2015 decreased \$2 million from the third quarter of 2014. Non-core net charge-offs of \$9 million in the third quarter of 2015 decreased \$12 million from the third quarter of 2014. On a quarterly basis, we review and refine our estimate of the allowance for credit losses, taking into consideration changes in portfolio size and composition, historical loss experience, internal risk ratings, current economic conditions, industry performance trends and other pertinent information. The provision also reflected an increase in overall credit exposure associated with growth in our loan portfolio. In the third quarter of 2015 changes in these factors led to a \$1 million reserve build compared to an \$11 million reserve release in the third quarter of 2014.

Other recorded a net loss of \$3 million in the first nine months of 2015 compared to net income of \$117 million in the first nine months of 2014. Net loss in the first nine months of 2015 included \$31 million of after-tax restructuring charges and special items. Net income in the first nine months of 2014 included a \$180 million after-tax gain related to the Chicago Divestiture partially offset by \$85 million of after-tax restructuring charges and special items.

Excluding these items, net income increased by \$6 million.

Net interest income in the first nine months of 2015 decreased \$18 million to \$38 million compared to \$56 million in the first nine months of 2014. The decrease was driven primarily by an increase in wholesale funding costs, and lower non-core loans, partially offset by a reduction in interest rate swap costs.

Noninterest income in the first nine months of 2015 decreased \$272 million driven by the \$288 million pre-tax gain on the Chicago Divestiture. Excluding the gain, noninterest income increased \$16 million driven by an accounting change for low-income housing investments, which is offset in income tax expense, partially offset by lower securities gains

Noninterest expense in the first nine months of 2015 of \$88 million decreased \$106 million from the first nine months of 2014, reflecting lower restructuring charges and special items of \$86 million, and lower employee incentive costs. The provision for credit losses in the first nine months of 2015 decreased \$24 million to \$35 million compared to \$59 million in the first nine months of 2014, reflecting continued improvement in credit quality and a decrease in non-core net charge-offs of \$21 million to \$31 million in the first nine months of 2015 compared to \$52 million in the first nine months of 2014. On a quarterly basis, we review and refine our estimate of the allowance for credit losses, taking into consideration changes in portfolio size and composition, historical loss experience, internal risk ratings, current economic conditions, industry performance trends and other pertinent information. The provision also reflected an increase in overall credit exposure associated with growth in our loan portfolio.

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

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

Loans and Leases

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

(dollars in millions)	September 30, 2015	December 31, 2014	Change	Percent
Commercial	\$32,726	\$31,431	\$1,295	4 %
Commercial real estate	8,678	7,809	869	11
Leases	3,865	3,986	(121)	(3)
Total commercial	45,269	43,226	2,043	5
Residential mortgages	12,792	11,832	960	8
Home equity loans	2,842	3,424	(582)	(17)
Home equity lines of credit	14,707	15,423	(716)	(5)
Home equity loans serviced by others ⁽¹⁾	1,054	1,228	(174)	(14)
Home equity lines of credit serviced by others ⁽¹⁾	441	550	(109)	(20)
Automobile	13,876	12,706	1,170	9
Student	3,846	2,256	1,590	70
Credit cards	1,628	1,693	(65)	(4)
Other retail	976	1,072	(96)	(9)
Total retail	52,162	50,184	1,978	4
Total loans and leases ^{(2) (3)}	\$97,431	\$93,410	\$4,021	4 %

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

⁽²⁾ Excluded from the table above are loans held for sale totaling \$420 million and \$281 million as of September 30, 2015 and December 31, 2014, respectively.

⁽³⁾ Mortgage loans serviced for others by our subsidiaries are not included above, and amounted to \$17.7 billion and \$17.9 billion at September 30, 2015 and December 31, 2014, respectively.

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

Total loans and leases of \$97.4 billion as of September 30, 2015, increased \$4.0 billion, or 4%, from \$93.4 billion as of December 31, 2014, reflecting growth in both retail and commercial. Total commercial loans and leases of \$45.3 billion grew \$2.0 billion, or 5%, from \$43.2 billion as of December 31, 2014, reflecting commercial loan growth of \$1.3 billion and growth in commercial real estate, offset by lower lease outstandings. Total retail loans of \$52.2 billion increased \$2.0 billion, or 4%, from \$50.2 billion as of December 31, 2014, as a \$1.6 billion increase in student, a \$1.2 billion increase in auto, and a \$960 million increase in residential mortgages, were partially offset by lower home equity balances, including a reduction in the non-core portfolio.

The effect of loan purchases and sales in the first nine months of 2015, net of runoff of previously purchased loans, increased period-end loans by \$855 million. See Note 3 "Loans and Leases" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report, for further information.

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

Non-Core Assets

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

(dollars in millions)			(Date of	Change from 2015-2014	Change from 2015-2009
	September 30, 2015	December 31, 2014	Designation) June 30, 2009		
Commercial	\$45	\$68	\$1,900	(34 %)	(98 %)
Commercial real estate	148	216	3,412	(31)	(96)
Total commercial	193	284	5,312	(32)	(96)
Residential mortgages	312	365	1,467	(15)	(79)
Home equity loans	74	118	384	(37)	(81)
Home equity lines of credit	77	121	231	(36)	(67)
Home equity loans serviced by others ⁽¹⁾	1,054	1,228	4,591	(14)	(77)
Home equity lines of credit serviced by others ⁽¹⁾	441	550	1,589	(20)	(72)
Automobile	—	—	769	—	(100)
Student	338	369	1,495	(8)	(77)
Credit cards	—	—	995	—	(100)
Other retail	—	—	3,268	—	(100)
Total retail	2,296	2,751	14,789	(17)	(84)
Total non-core loans	2,489	3,035	20,101	(18)	(88)
Other assets	42	65	378	(35)	(89)
Total non-core assets	\$2,531	\$3,100	\$20,479	(18 %)	(88 %)

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

Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. Non-core assets totaled \$2.5 billion as of September 30, 2015. We have actively managed these loans down since they were designated as non-core on June 30, 2009. Between that time and September 30, 2015, the portfolio decreased \$17.9 billion, including principal repayments of \$9.9 billion; charge-offs of \$3.9 billion; transfers back to the core portfolio of \$2.8 billion; and sales of \$1.3 billion. Transfers from non-core back to core were handled on an individual request basis and managed through our chief credit officer.

Non-core assets totaled \$2.5 billion as of September 30, 2015, down 18% from December 31, 2014, driven by principal repayments of \$516 million. Commercial non-core loan balances declined 32% compared to December 31, 2014, ending at \$193 million compared to \$284 million at December 31, 2014. Retail non-core loan balances of \$2.3 billion decreased \$455 million, or 17%, compared to December 31, 2014.

The largest component of our non-core portfolio is the home equity SBO portfolio. The SBO portfolio is a liquidating portfolio consisting of pools of home equity loans and lines of credit purchased between 2003 and 2007. Although our SBO portfolio consists of loans that were initially serviced by others, we now service a portion of this portfolio internally. SBO balances serviced externally totaled \$836 million and \$1.1 billion as of September 30, 2015 and December 31, 2014, respectively. The SBO portfolio has been closed to new purchases since the third quarter of 2007, with exposure down to \$1.5 billion as of September 30, 2015, compared to \$1.8 billion as of December 31, 2014. The SBO portfolio represented 5% of the retail real estate secured portfolio and 3% of the overall retail loan portfolio as of September 30, 2015.

The credit profile of the SBO portfolio was weaker than the core real estate portfolio, with a weighted-average refreshed FICO score of 712 and CLTV of 90% as of September 30, 2015. The proportion of the portfolio in a second

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

SBO credit performance continued to improve in 2015 driven by continued portfolio liquidation (the weakest performing loans have already been charged off), more effective account servicing and collection strategies, and improvements in the real estate market. SBO portfolio year-to-date net charge-offs of \$13.7 million, or 1.1% annualized, as of September 30, 2015 improved from 2.1%, for the full year 2014.

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

Allowance for Credit Losses and Nonperforming Assets

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

The allowance for credit losses totaled \$1.3 billion at September 30, 2015 and December 31, 2014. Our allowance for loan and lease losses was 1.23% of total loans and leases and 116% of nonperforming loans and leases as of September 30, 2015 compared with 1.28% and 109% as of December 31, 2014. Overall, loan portfolio credit quality continued to improve across most measures in the nine months ended September 30, 2015 compared to the year ago period. Net charge-offs for the nine months ended September 30, 2015 of \$207 million decreased 15% compared to \$243 million for the nine months ended September 30, 2014, primarily driven by improvement in home equity and mortgage loans. The portfolio annualized net charge-off rate declined to 0.29% for the nine months ended September 30, 2015 from 0.37% for the nine months ended September 30, 2014. The 90 day or more past due delinquency rate improved to 0.8% as of September 30, 2015 from 0.9% at December 31, 2014. Nonperforming loans and leases totaled \$1.0 billion, or 1.06%, of the total portfolio as of September 30, 2015 and \$1.1 billion, or 1.18% in December 31, 2014. At September 30, 2015, \$755 million of nonperforming loans and leases had been designated as impaired and had no specific allowance because they had been written down to the fair value of their collateral. These impaired loans included \$668 million of retail loans and \$87 million of commercial loans.

Commercial Loan Asset Quality

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

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

During the nine months ended September 30, 2015, the credit quality of the commercial loan portfolio exhibited a modest increase in total criticized loans to \$2.1 billion, or 4.7% of the commercial loan portfolio compared to \$1.9 billion, or 4.5%, at December 31, 2014. Commercial real estate criticized balances decreased to \$352 million, or 4.0%, of the commercial real estate portfolio compared to \$455 million, or 5.8%, as of December 31, 2014. Commercial real estate accounted for 16% of criticized loans as of September 30, 2015, compared to 24% as of December 31, 2014.

As of September 30, 2015, nonperforming commercial loans and leases decreased \$34 million, or 21%, to \$130 million, compared to \$164 million as of December 31, 2014, driven by a 23% decline in commercial nonperforming loans. As of September 30, 2015, total commercial nonperforming loans stood at 0.3% of the commercial loan portfolio, compared to 0.4% as of December 31, 2014. Net charge-offs in our total commercial loan and lease portfolio for the nine months ended September 30, 2015 reflected a net recovery of \$10 million compared to a net recovery of \$17 million for the nine months ended September 30, 2014. See “—Key Factors Affecting Our Business — Credit Trends” for further details.

Retail Loan Asset Quality

For retail loans, we primarily use the loan's payment and delinquency status to monitor credit quality. The longer a loan is past due, the greater the likelihood of future credit loss. These credit quality indicators are continually updated and monitored. Our retail loan portfolio remains focused on lending across the New England, Mid-Atlantic and Midwest regions, with continued geographic expansion outside the footprint primarily in the auto finance and student lending portfolios. Retail assets increased to \$52.2 billion as of September 30, 2015, a 4% increase from December 31, 2014, driven by growth in the student lending, auto finance and residential mortgage portfolio, offset by a reduction in home equity balances.

CITIZENS FINANCIAL GROUP, INC.
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The credit composition of our retail loan portfolio at September 30, 2015 remained favorable and well-positioned across all product lines with an average refreshed FICO score of 755, in line with December 31, 2014. Our real estate CLTV ratio is calculated as the mortgage and 2nd lien loan amount divided by the appraised value of the property and was 63.5% as of September 30, 2015 compared to 65.4% as of December 31, 2014. Excluding the SBO portfolio, the real estate CLTV was 62.1% as of September 30, 2015 compared to 63.8% as of December 31, 2014. Asset quality is improving with a net charge-off rate (core and non-core) of 0.57% for the nine months ended September 30, 2015, a decrease of 16 basis points from the nine months ended September 30, 2014.

Nonperforming retail loans as a percentage of total retail loans were 1.7% as of September 30, 2015, a 14 basis point decrease from December 31, 2014. Retail nonaccrual loans of \$896 million at September 30, 2015 decreased \$34 million from \$930 million at December 31, 2014, reflecting lower mortgage and home equity portfolios, partially offset by increases in the student lending and auto finance portfolios.

Special Topics-HELOC Payment Shock

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

Troubled Debt Restructuring

TDR is the classification given to a loan that has been restructured in a manner that grants a concession to a borrower that is experiencing financial hardship that we would not otherwise make. TDRs typically result from our loss mitigation efforts and are undertaken in order to improve the likelihood of recovery and continuity of the relationship. Our loan modifications are handled on a case by case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet our borrower's financial needs. The types of concessions include interest rate reductions, term extensions, principal forgiveness and other modifications to the structure of the loan that fall outside our lending policy. Depending on the specific facts and circumstances of the customer, restructuring can involve loans moving to nonaccrual, remaining on nonaccrual or continuing on accrual status. As of September 30, 2015 and December 31, 2014, we classified \$1.2 billion as retail TDRs. In the retail TDR population, \$378 million were in nonaccrual status of which 55.8% were current in payment. TDRs generally return to accrual status once repayment capacity and appropriate payment history can be established. TDRs are evaluated for impairment individually. Loans are classified as TDRs until paid off, sold or refinanced at market terms.

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

The table below presents our retail TDRs in delinquent status:

(in millions)	September 30, 2015			Total
	Current	30-89 Days Past Due	90+ Days Past Due	
Recorded Investment:				
Residential mortgages	\$341	\$14	\$75	\$430
Home equity loans	229	13	42	284
Home equity lines of credit	119	6	16	141
Home equity loans serviced by others ⁽¹⁾	71	5	3	79
Home equity lines of credit serviced by others ⁽¹⁾	6	1	3	10
Automobile	13	1	—	14
Student	157	6	2	165

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Credit cards	26	2	1	29
Other retail	17	1	—	18
Total	\$979	\$49	\$142	\$1,170

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

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

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

(in millions)	September 30, 2015		
	Accruing	Nonaccruing	Total
Recorded Investment:			
Residential mortgages	\$282	\$148	\$430
Home equity loans	181	103	284
Home equity lines of credit	80	61	141
Home equity loans serviced by others ⁽¹⁾	55	24	79
Home equity lines of credit serviced by others ⁽¹⁾	4	6	10
Automobile	5	9	14
Student	139	26	165
Credit cards	28	1	29
Other retail	18	—	18
Total	\$792	\$378	\$1,170

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

Securities

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

(dollars in millions)	September 30, 2015		December 31, 2014		Change in Fair Value	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value		%
Securities Available for Sale:						
U.S. Treasury	\$15	\$15	\$15	\$15	\$—	—
State and political subdivisions	9	9	10	10	(1)	(10)
Mortgage-backed securities:						
Federal agencies and U.S. government sponsored entities	17,340	17,607	17,683	17,934	(327)	(2)
Other/non-agency	587	549	703	672	(123)	(18)
Total mortgage-backed securities	17,927	18,156	18,386	18,606	(450)	(2)
Total debt securities	17,951	18,180	18,411	18,631	(451)	(2)
Marketable equity securities	5	5	10	13	(8)	(62)
Other equity securities	12	12	12	12	—	—
Total equity securities	17	17	22	25	(8)	(32)
Total securities available for sale	\$17,968	\$18,197	\$18,433	\$18,656	(\$459)	(2)
Securities Held to Maturity:						
Mortgage-backed securities:						
Federal agencies and U.S. government sponsored entities	\$4,092	\$4,155	\$3,728	\$3,719	\$436	12
Other/non-agency	1,193	1,231	1,420	1,474	(243)	(16)
Total securities held to maturity	\$5,285	\$5,386	\$5,148	\$5,193	\$193	4
Total securities available for sale and held to maturity	\$23,253	\$23,583	\$23,581	\$23,849	(\$266)	(1)

As of September 30, 2015, the fair value of the AFS and HTM securities portfolio decreased by \$266 million, or 1%, to \$23.6 billion, compared to \$23.8 billion as of December 31, 2014, reflecting sales of mortgage-backed securities

and a corresponding reduction in collateralized borrowings, partially offset by continued reinvestment of securities cashflows and an increase in the market value of the securities portfolio due to a decline in interest rates as of September 30, 2015. As of September 30, 2015, the portfolio had a weighted-average duration of 3.3 years compared with 3.5 years as of December 31, 2014.

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The securities portfolio included high quality, highly liquid investments reflecting our ongoing commitment to maintaining appropriate contingent liquidity and pledging capacity. U.S. Government guaranteed notes and government sponsored entity issued mortgage-backed securities represented the vast majority of the securities portfolio holdings. The portfolio composition has also been dominated by holdings backed by mortgages so that they can be pledged to the FHLBs. This has become increasingly important due to the enhanced liquidity requirements of the liquidity coverage ratio. For further discussion of the liquidity coverage ratios, see "Regulation and Supervision — Liquidity Standards" in Part I, Item 1 — Business, included in the Annual Report on Form 10-K for the year ended December 31, 2014.

Income on debt securities portfolios totaled \$437 million for the nine months ended September 30, 2015, an increase of \$6 million, or 1%, from \$431 million for the nine months ended September 30, 2014, and reflected a yield of 2.44% compared with 2.47% for the nine months ended September 30, 2014.

Deposits

The table below represents the major components of our deposits:

(dollars in millions)	September 30, 2015	December 31, 2014	Change	Percent
Demand	\$27,373	\$26,086	\$1,287	5 %
Checking with interest	18,350	16,394	1,956	12
Regular savings	8,011	7,824	187	2
Money market accounts	35,539	33,345	2,194	7
Term deposits	12,593	12,058	535	4
Total deposits	\$101,866	\$95,707	\$6,159	6 %

Total deposits as of September 30, 2015, increased \$6.2 billion, or 6%, to \$101.9 billion compared to \$95.7 billion as of December 31, 2014. All categories of deposits increased, led by money market accounts which increased by \$2.2 billion, or 7%.

Borrowed Funds

Short-Term Borrowed Funds

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

(dollars in millions)	September 30, 2015	December 31, 2014	Change	Percent
Federal funds purchased	\$—	\$574	(\$574)	(100 %)
Securities sold under agreements to repurchase	1,293	3,702	(2,409)	(65)
Other short-term borrowed funds (primarily current portion of FHLB advances)	5,861	6,253	(392)	(6)
Total short-term borrowed funds	\$7,154	\$10,529	(\$3,375)	(32 %)

Short-term borrowed funds of \$7.2 billion as of September 30, 2015, decreased \$3.4 billion from \$10.5 billion as of December 31, 2014, reflecting a decline in repurchase agreements, FHLB borrowings, and Federal funds purchased. As of September 30, 2015, our total contingent liquidity was \$23.0 billion, consisting of net cash at the FRB (which is defined as excess cash balances held at the FRBs) of \$689 million, unencumbered high-quality securities totaling \$17.0 billion and unused FHLB borrowing capacity of approximately \$5.3 billion. Additionally, unencumbered loans pledged at the FRBs of \$9.1 billion created total available liquidity of approximately \$32.1 billion.

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

(dollars in millions)	For the Nine Months Ended September 30, 2015	For the Year Ended December 31, 2014	For the Nine Months Ended September 30, 2014		
Weighted-average interest rate at period-end:					
Federal funds purchased and securities sold under agreements to repurchase	0.25	%	0.14	%	0.12
Other short-term borrowed funds (primarily current portion of FHLB advances)	0.29		0.26		0.25
Maximum amount outstanding at month-end during the period:					
Federal funds purchased and securities sold under agreements to repurchase	\$5,375		\$7,022		\$7,022
Other short-term borrowed funds (primarily current portion of FHLB advances)	7,004		7,702		7,702
Average amount outstanding during the period:					
Federal funds purchased and securities sold under agreements to repurchase	\$3,947		\$5,699		\$5,908
Other short-term borrowed funds (primarily current portion of FHLB advances)	6,169		5,640		5,479
Weighted-average interest rate during the period:					
Federal funds purchased and securities sold under agreements to repurchase	0.22	%	0.12	%	0.08
Other short-term borrowed funds (primarily current portion of FHLB advances)	0.27		0.25		0.26

Long-Term Borrowed Funds

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

(in millions)	September 30, 2015	December 31, 2014
Citizens Financial Group, Inc.:		
4.150% fixed rate subordinated debt, due 2022	\$350	\$350
5.158% fixed-to-floating rate subordinated debt, (LIBOR + 3.56%) callable, due 2023 ⁽¹⁾	333	333
4.771% fixed rate subordinated debt, due 2023 ⁽¹⁾	333	333
4.691% fixed rate subordinated debt, due 2024 ⁽¹⁾	334	334
4.153% fixed rate subordinated debt, due 2024 ⁽¹⁾	333	333
4.023% fixed rate subordinated debt, due 2024 ⁽¹⁾	333	333
4.082% fixed rate subordinated debt, due 2025 ⁽¹⁾	334	334
4.350% fixed rate subordinated debt, due 2025	250	—
Banking Subsidiaries:		
1.600% senior unsecured notes, due 2017 ⁽²⁾⁽³⁾	755	750
2.450% senior unsecured notes, due 2019 ⁽²⁾⁽³⁾	763	746
Federal Home Loan advances due through 2033	18	772
Other	17	24
Total long-term borrowed funds	\$4,153	\$4,642

- (1) Intercompany borrowed funds with RBS. See Note 14 “Related Party Transactions” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.
- (2) These securities were offered under Citizens Bank, N.A.’s Global Bank Note Program dated December 1, 2014.
- (3) \$1.5 billion principal balance of unsecured notes presented net of \$5 million and \$13 million hedge of interest rate risk on medium term debt using interest rate swaps at September 30, 2015. See Note 12 “Derivatives” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report. Long-term borrowed funds of \$4.2 billion as of September 30, 2015, decreased \$489 million from \$4.6 billion as of December 31, 2014, primarily driven by \$750 million in long term FHLB advances that migrated to the short-term category, partially offset by the addition of \$250 million in fixed-rate subordinated debt this quarter.

Access to additional funding through repurchase agreements, collateralized borrowed funds or asset sales is available. Additionally, there is capacity to grow deposits or issue senior or subordinated notes.

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Derivatives

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

We use receive-fixed swaps to minimize the exposure to variability in the interest cash flows on our floating rate assets. At September 30, 2015 and December 31, 2014, the notional amount of receive-fixed swap hedges of floating-rate loans totaled \$5.5 billion and \$4.0 billion, respectively, and the fixed-rate ranges were 1.62% to 2.04% and 1.78% to 2.04%, respectively. We paid one-month LIBOR on these swaps.

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

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

At September 30, 2015, the overall derivative asset value increased \$209 million and the liability balance decreased by \$29 million from December 31, 2014, primarily due to decreased fixed interest rates at September 30, 2015, compared to December 31, 2014 and increased notional balances for the same period.

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

(dollars in millions)	September 30, 2015			December 31, 2014		
	Notional Amount (1)	Derivative Assets	Derivative Liabilities	Notional Amount (1)	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate swaps	\$11,000	\$173	\$68	\$5,750	\$24	\$99
Derivatives not designated as hedging instruments:						
Interest rate swaps	31,628	664	580	31,848	589	501
Foreign exchange contracts	7,783	163	158	8,359	170	164
Other contracts	1,081	10	10	730	7	9
Total derivatives not designated as hedging instruments		837	748		766	674
Gross derivative fair values		1,010	816		790	773
Less: Gross amounts offset in the Consolidated Balance Sheets (2)		(172)	(172)	(161)	(161)	(161)
Less: Cash collateral applied (2)			(3)			
Total net derivative fair values presented in the Consolidated Balance Sheets (3)		\$838	\$641		\$629	\$612

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- (1) The notional or contractual amount of interest rate derivatives and foreign exchange contracts is the amount upon which interest and other payments under the contract are based. For interest rate derivatives, the notional amount is typically not exchanged. Therefore, notional amounts should not be taken as the measure of credit or market risk as they tend to greatly overstate the true economic risk of these contracts.
- (2) Amounts represent the impact of legally enforceable master netting agreements that allow us to settle positive and negative positions.
- (3) We also offset assets and liabilities associated with repurchase agreements on our Consolidated Balance Sheets. See Note 2, "Securities," in our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

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Capital

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

On January 1, 2015, we became subject to the FRBG's Basel III capital framework. Basel III formally established a CET1 capital ratio and changed the calculation of tier 1 and total capital ratios. Basel III also introduced new minimum ratio requirements and added capital conservation buffer requirements for risk-based ratios, changed the permissible components of regulatory capital, expanded and modified the risk-sensitive calculation of risk-weighted assets for both credit and market risk and introduced a Standardized approach for the calculation of risk-weighted assets. Certain aspects of these rule changes will phase in through 2018. Under Basel III, the fully phased-in minimum standards for the CET1 ratio, the tier 1 capital ratio and the total capital ratio, including the capital conservation buffer that phases in for us during 2016 through 2018, are 7.0%, 8.5% and 10.5%, respectively. The minimum tier 1 leverage ratio applicable to us is 4.0%. For further discussion of the capital rules to which we are subject, see "Regulation and Supervision" in Part I, Item 1 — Business, included in our Annual Report on Form 10-K for the year ended December 31, 2014.

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

	Transitional Basel III				Pro Forma Basel III Assuming Full Phase-in				
	Actual Amount	Actual Ratio	Required Minimum	Well-Capitalized Minimum for Purposes of Prompt Corrective Action	Actual Ratio ⁽¹⁾	Required Minimum + Required Capital Conservation Buffer for Non-Leverage Ratios	FDIC Required Well-Capitalized Minimum for Purposes of Prompt Corrective Action		
Basel III Transitional as of September 30, 2015									
Common equity tier 1 capital ⁽²⁾	\$13,200	11.8	%4.5	%6.5	% 11.7	%7.0	%6.5		%
Tier 1 capital ⁽³⁾	13,447	12.0	6.0	8.0	11.9	8.5	8.0		
Total capital ⁽⁴⁾	17,307	15.4	8.0	10.0	15.4	10.5	10.0		
Tier 1 leverage ⁽⁵⁾	13,447	10.4	4.0	5.0	10.4	4.0	5.0		
Basel I as of December 31, 2014									
Tier 1 common equity ⁽²⁾	\$13,173	12.4	% Not Applicable	Not Applicable					
Tier 1 capital ⁽³⁾	13,173	12.4	4.0	%6.0	%				
Total capital ⁽⁴⁾	16,781	15.8	8.0	10.0					
Tier 1 leverage ⁽⁵⁾	13,173	10.6	4.0	5.0					

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

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

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

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

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

Standardized Approach

The Basel III Standardized approach measures risk-weighted assets primarily for market risk and credit risk exposures. Exposures subject to market risk are measured on a basis generally consistent with how market risk-weighted assets were measured as defined under the Basel I - 2013 Rules. Credit risk exposures are measured by applying fixed risk weights to each exposure, determined based on the characteristics of the exposure, such as type of obligor, Organization for Economic Cooperation and Development country risk code and maturity, among others. Under the Standardized approach, which is the risk-weight

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methodology applicable to CFG, no distinction is made for variations in credit quality for corporate exposures. Additionally, the economic benefit of collateral is restricted to a limited list of eligible securities and cash. We estimate our common equity tier 1 capital ratio under the Basel III Standardized approach, on a fully phased-in basis, to be 11.7% at September 30, 2015. As of September 30, 2015, we estimated that our Basel III Standardized common equity tier 1 capital would be \$13.2 billion and total risk-weighted assets would be \$112.5 billion, on a fully-phased in basis. Our estimates under the Basel III Standardized approach may be refined over time because of further rulemaking or clarification by U.S. banking regulators or as our understanding and interpretation of the rules evolve. Actual results could differ from those estimates and assumptions.

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

(dollars in millions)	September 30, 2015	
Common equity tier 1 capital	\$13,200	
Impact of intangibles at 100%	(2)
Fully phased-in common equity tier 1 capital ⁽¹⁾	\$13,198	
Total capital	\$17,307	
Impact of intangibles at 100%	(2)
Fully phased in common total capital ⁽¹⁾	\$17,305	
Risk-weighted assets	\$112,277	
Impact of intangibles - 100% capital deduction	(2)
Impact of mortgage servicing assets at 250% risk weight	245	
Fully phased-in risk-weighted assets ⁽¹⁾	\$112,520	
Transitional common equity tier 1 ratio ⁽²⁾	11.8	%
Fully phased-in common equity tier 1 ratio ⁽¹⁾⁽²⁾	11.7	
Transitional total capital ratio ⁽³⁾	15.4	
Fully phased-in total capital ratio ⁽¹⁾⁽³⁾	15.4	

⁽¹⁾ These are non-GAAP financial measures.

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

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

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Regulatory Capital Ratios and Capital Composition

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

(dollars in millions)	Actual		Minimum Capital Adequacy		FDIC Requirements Classification as "Well Capitalized"				
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	
Basel III Transitional as of September 30, 2015									
Common equity tier 1 capital ⁽¹⁾	\$13,200	11.8	%	\$5,052	4.5	%	\$7,298	6.5	%
Tier 1 capital ⁽²⁾	13,447	12.0		6,737	6.0		8,982	8.0	
Total capital ⁽³⁾	17,307	15.4		8,982	8.0		11,228	10.0	
Tier 1 leverage ⁽⁴⁾	13,447	10.4		5,173	4.0		6,467	5.0	
Risk-weighted assets	112,277								
Quarterly adjusted average assets	129,334								
Basel I as of December 31, 2014									
Tier 1 common equity ⁽¹⁾	\$13,173	12.4	%	Not Applicable	Not Applicable		Not Applicable	Not Applicable	
Tier 1 capital ⁽²⁾	13,173	12.4		4,239	4.0		6,358	6.0	
Total capital ⁽³⁾	16,781	15.8		8,477	8.0		10,596	10.0	
Tier 1 leverage ⁽⁴⁾	13,173	10.6		4,982	4.0		6,227	5.0	
Risk-weighted assets	105,964								
Quarterly adjusted average assets	124,539								

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

⁽²⁾ "Tier 1 capital ratio" is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under Basel III Standardized approach. The "tier 1 capital ratio" reported prior to January 1, 2015, represented tier 1 capital divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

⁽³⁾ "Total capital ratio" is total capital divided by total risk-weighted assets as defined under Basel III Standardized approach. The "Total capital ratio" reported prior to January 1, 2015, represented total capital divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

⁽⁴⁾ "Tier 1 leverage ratio" is tier 1 capital divided by quarterly average total assets as defined under Basel III Standardized approach. The "tier 1 leverage ratio" reported prior to January 1, 2015, represented tier 1 capital divided by quarterly average total assets as defined under the Basel I general risk-based capital rule.

CET1 capital under Basel III Standardized Transitional rules was \$13.2 billion at September 30, 2015, an increase of \$27 million from tier 1 common equity under Basel I at December 31, 2014. The increase was primarily attributable to net income for nine months ended September 30, 2015, net of dividends paid to common stockholders, \$500 million in repurchases of common shares executed on April 7, 2015 and August 3, 2015, and amortization of deferred tax related to goodwill. At September 30, 2015, there was approximately \$247 million of additional tier 1 capital, reflecting the capital value after issuance costs of the 5.500% Fixed-to-Floating Non-Cumulative Perpetual Preferred Stock, Series A, issued on April 6, 2015. Tier 1 capital at September 30, 2015 was \$13.4 billion, an increase of \$274 million over the three quarters, as approximately half of the repurchase of common shares was offset by the issuance of preferred shares. Total capital was \$17.3 billion at September 30, 2015, an increase of \$526 million from December 31, 2014 driven primarily by net income, net of dividends paid to common stockholders, as the combined

impact of the repurchase of common shares, issuance of preferred shares and issuance of \$250 million in subordinated debt on July 31, 2015 was generally neutral to total capital.

On January 1, 2015, we began reporting risk-weighted assets based on Basel III Standardized Transitional rules. The conversion from Basel I rules resulted in a \$2.7 billion increase in RWAs as of December 31, 2014. This increase was primarily driven by risk weight changes for securitization, off-balance sheet commitments with original maturity one year or less, past due and nonaccruals exposures and the removal of the cap on OTC derivatives.

Risk-weighted assets based on Basel III Standardized Transitional rules at September 30, 2015 were \$112.3 billion, an increase of \$6.3 billion as compared to December 31, 2014. The primary drivers for this change were the adoption of the Basel III Standardized approach, as well as growth in commercial, consumer auto and student loan exposures.

As of September 30, 2015, the tier 1 leverage ratio decreased approximately 18 basis points. This decline reflected the net impact of a \$4.8 billion increase in adjusted quarterly average total assets, which drove a 40 basis point decline in the ratio, and the previously noted increase in tier 1 capital, which added 22 basis points to the ratio.

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The following table presents our capital composition under the Basel III capital framework in effect for us at September 30, 2015 and under the Basel I capital framework in effect for us at December 31, 2014:

(dollars in millions)	Transitional Basel III September 30, 2015	Basel I December 31, 2014
Total common stockholders' equity	\$19,353	\$19,268
Exclusions ⁽¹⁾ :		
Net unrealized (gains) losses recorded in accumulated other comprehensive income, net of tax:		
Debt and marketable equity securities available for sale	(80)	(74)
Derivatives	(31)	69
Unamortized net periodic benefit costs	370	377
Deductions:		
Goodwill	(6,876)	(6,876)
Deferred tax liability associated with goodwill	465	420
Other intangible assets	(1)	(6)
Disallowed mortgage servicing	—	(5)
Total Common Equity Tier 1 ⁽²⁾	13,200	13,173
Qualifying preferred stock	247	—
Total Tier 1 Capital	13,447	13,173
Qualifying long-term debt securities as tier 2	2,600	2,350
Allowance for loan and lease losses	1,201	1,195
Allowance for credit losses for off-balance sheet exposure	59	61
Unrealized gains on equity securities	—	2
Total capital	\$17,307	\$16,781

⁽¹⁾ As a Basel III Standardized approach institution, we selected the one-time election to opt out of the requirements to include all the components of AOCI.

⁽²⁾ Basel III introduced the concept of tier 1 common capital that existed under Basel I effective January 1, 2015.

Capital Adequacy Process

Our assessment of capital adequacy begins with our risk appetite and risk management framework. This framework provides for the identification, measurement and management of material risks. Capital requirements are determined for actual and forecasted risk portfolios using applicable regulatory capital methodologies. The assessment also considers the possible impacts of approved and proposed regulatory changes that will or may apply to future periods. Key analytical frameworks, which enable the comprehensive assessment of capital adequacy versus unexpected loss, supplement our base case forecast. These supplemental frameworks include integrated stress testing, as well as an internal capital adequacy requirement that builds on internally assessed economic capital requirements. A robust governance framework supports our capital planning process. This process includes capital management policies and procedures that document capital adequacy metrics and limits, as well as our comprehensive capital contingency plan and the active engagement of both the legal-entity boards and senior management in oversight and decision-making. Forward-looking assessments of capital adequacy for us and for our banking subsidiaries feed development of capital plans that are submitted to the FRBG and other bank regulators. We prepare these plans in full compliance with the FRBG's Capital Plan Rule and we participate annually in the FRBG's extensive CCAR review process. In addition to the stress test requirements under CCAR, we also participate in semiannual stress tests required by the Dodd-Frank Act.

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In March 2015, the FRBG assessed our current capital plan in response to the CCAR process and issued a notice of non-objection. Unless we choose to file an amended capital plan prior to April 2016, the maximum levels at which we may declare dividends and repurchase shares of our common stock through June 30, 2016 are governed by the proposed capital actions and, are subject to actual financial performance, as well as ongoing compliance with internal governance and all other regulatory requirements.

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Capital Transactions

During the nine months ended September 30, 2015, we completed the following capital actions:

- declared and paid common dividends of \$0.10 per share, aggregating to dividend payments of approximately \$55 million, \$53 million and \$53 million, respectively, in the first, second and third quarters of 2015;
- issued 250,000 shares of the 5.500% Fixed-To-Floating Non-cumulative Perpetual Preferred Stock, Series A, on April 6, 2015, with aggregate liquidation value of \$250 million and approximately \$247 million of net capital value after deduction of fixed issuance costs;
- repurchased 10,473,397 of our outstanding common shares from RBS, on April 7, 2015, at a price of \$23.87 per share reducing market and regulatory capital by approximately \$250 million;
- issued \$250 million aggregate principal amount 4.350% Subordinated Notes due 2025 on July 31, 2015;
- repurchased 9,615,384 of our outstanding common shares from RBS on August 3, 2015, at a price of \$26.00 per share reducing market and regulatory capital by approximately \$250 million;
- declared a semi-annual dividend of \$27.50 per share on the 5.500% fixed-to-floating rate non-cumulative perpetual Series A Preferred Stock, aggregating to approximately \$7 million, and paid on October 6, 2015.

The repurchase of common shares and the issuance of subordinate debt during the third quarter of 2015 were neutral to our total capital level and ratio but reduced common equity by \$250 million, and the CET1 and tier 1 risk-based ratios by 22 bps as of September 30, 2015. The repurchase of common shares and the issuance of preferred shares during the second quarter of 2015 were generally neutral to our tier 1 and total capital levels and ratios but reduced common equity by \$250 million and the CET1 ratio by approximately 23 basis points as of June 30, 2015. Subject to regulatory approval and market conditions, we intend to continue purchasing shares of our common stock in 2016 and to fund these repurchases by the issuance of senior debt or subordinate debt.

At September 30, 2015, all regulatory ratios remained well above their respective fully phased-in Basel III minimum, which includes the capital conservation buffer for the risk-based ratios. Fully phased-in regulatory ratios are non-GAAP financial measures. For more information on computation of these non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures,”

Banking Subsidiaries' Capital

The following table presents our banking subsidiaries' capital ratios under Basel I as of December 31, 2014 and Basel III Standardized Transitional rules as of September 30, 2015:

(dollars in millions)	Transitional Basel III		Basel I		
	September 30, 2015		December 31, 2014		
	Amount	Ratio	Amount	Ratio	
Citizens Bank, N.A.					
Common equity tier 1 capital ⁽¹⁾	\$10,780	12.0		%	
Tier 1 capital ⁽²⁾	10,780	12.0	\$10,406	12.2	%
Total capital ⁽³⁾	12,975	14.5	12,584	14.8	
Tier 1 leverage ⁽⁴⁾	10,780	10.8	10,406	10.9	
Citizens Bank of Pennsylvania					
Common equity tier 1 capital ⁽¹⁾	\$3,004	13.1		%	
Tier 1 capital ⁽²⁾	3,004	13.1	\$2,967	14.1	%
Total capital ⁽³⁾	3,539	15.5	3,494	16.6	
Tier 1 leverage ⁽⁴⁾	3,004	8.9	2,967	9.5	

⁽¹⁾ Basel III introduced the concept of CET I effective January 1, 2015. “Common equity tier 1 capital ratio” as of September 30, 2015 represents CET1 divided by total risk-weighted assets as defined under 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 Basel III Standardized

approach. The “tier 1 capital ratio” reported prior to January 1, 2015, represented tier 1 capital divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

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

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

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CBNA CET1 capital under Basel III Standardized Transitional rules was \$10.8 billion at September 30, 2015, an increase of \$374 million from tier 1 equity under Basel I at December 31, 2014. The increase was primarily attributable to net income for the nine months ended September 30, 2015, net of dividends paid to CFG. At September 30, 2015, CBNA held minimal additional tier 1 capital. Total capital was \$13.0 billion at September 30, 2015, an increase of \$391 million driven primarily by the increase in CET1 capital.

On January 1, 2015, CBNA began reporting risk-weighted assets based on Basel III Standardized Transitional rules. The conversion from Basel I rules resulted in a \$2.0 billion increase in RWAs as of December 31, 2014. This increase was primarily driven by risk weight changes for securitizations, commercial past due and nonaccruals, off-balance sheet commitments with an original maturity one year or less and the removal of the cap on OTC derivatives.

CBNA risk-weighted assets based on Basel III Standardized Transitional rules at September 30, 2015 were \$89.6 billion, an increase of \$4.3 billion as compared to December 31, 2014. The primary drivers for this change were the adoption of the Basel III Standardized approach, as well as growth in commercial, student and consumer auto loan exposures. These increases were partially offset by runoff in home lending exposures.

As of September 30, 2015, the CBNA tier 1 leverage ratio decreased approximately 4 basis points, driven by an increase in adjusted quarterly average total assets of \$3.8 billion resulting in a 43 basis point decline in the ratio, partially offset by a 38 basis point increase for higher CET1 capital described above.

CBPA CET1 capital under Basel III Standardized Transitional rules was \$3.0 billion at September 30, 2015, an increase of \$37 million from tier 1 equity under Basel I at December 31, 2014. The increase was primarily attributable to amortization of deferred tax related to goodwill, as net income for the nine months ended September 30, 2015, net of dividends paid to common stockholders was flat to December 31, 2014. At September 30, 2015, there was no additional tier 1 capital. Total capital was \$3.5 billion at September 30, 2015, an increase of \$45 million driven primarily by the increase in CET1 capital and a slight increase in allowance for credit losses.

On January 1, 2015, CBPA began reporting risk-weighted assets based on Basel III Standardized Transitional rules.

The conversion from Basel I rules resulted in a \$705 million increase in RWAs as of December 31, 2014. This increase was primarily driven by risk weight changes for off-balance sheet commitments with an original maturity one year or less, securitizations and the removal of the cap on OTC derivatives.

CBPA risk-weighted assets based on Basel III Standardized Transitional rules at September 30, 2015 were \$22.9 billion, an increase of \$1.8 billion as compared to December 31, 2014. The primary drivers for this change were the adoption of the Basel III Standardized approach, as well as growth in commercial, student loans and purchased auto loan exposures.

As of September 30, 2015, the CBPA tier 1 leverage ratio decreased approximately 61 basis points, driven by an increase in adjusted quarterly average total assets of \$2.6 billion resulting in a 72 basis point decline in the ratio, partially offset by a 11 basis point increase resulting from higher CET1 capital described above.

Liquidity

We define liquidity as an institution's ability to meet its cash-flow and collateral obligations in a timely manner, at a reasonable cost. An institution must maintain current liquidity to fund its daily operations and forecasted cash-flow needs as well as contingent liquidity to deliver funding in a stress scenario. We consider the effective and prudent management of liquidity to be fundamental to our health and strength.

We manage liquidity at the consolidated enterprise level and at each material legal entity, including us, CBNA and CBPA.

CFG Liquidity

Our primary sources of cash are (i) dividends and interest received from our banking subsidiaries as a result of investing in bank equity and subordinated debt and (ii) externally issued subordinated debt. Our uses of liquidity include the following: (i) routine cash flow requirements as a bank holding company, including payments of dividends, interest and expenses; (ii) needs of subsidiaries, including our banking subsidiaries, for additional equity and, as required, their needs for debt financing; and (iii) extraordinary requirements for cash.

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On July 31, 2015, we issued \$250 million aggregate principal amount 4.350% Subordinated Notes due 2025 in a public underwritten offering. We used the net proceeds of this offering to repurchase 9,615,384 shares of our outstanding common stock directly from RBS at \$26.00 per share.

Our cash and cash equivalents represent a source of liquidity that can be used to meet various needs. As of September 30, 2015, we held cash and cash equivalents of approximately \$431 million, which should be viewed as a liquidity reserve.

Our liquidity risk is low for four reasons. First, we have no material non-banking subsidiaries, and our banking subsidiaries are self-funding. Second, we have no outstanding senior debt at the CFG level. Third, the capital structures of our banking subsidiaries are similar to our capital structure. As of September 30, 2015, our double leverage ratio (the combined equity of our subsidiaries divided by our equity) was 102.4%. Fourth, our other cash flow requirements, such as operating expenses, are relatively small.

Banking Subsidiaries' Liquidity

In the ordinary course of business, the liquidity of CBNA and CBPA is managed by matching sources and uses of cash. The primary sources of bank liquidity include (i) deposits from our consumer and commercial franchise customers; (ii) payments of principal and interest on loans and debt securities; and (iii) 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 loan commitments; and (iv) funding of securities purchases. To the extent that the banks have relied on wholesale borrowings, uses also include payments of related principal and interest.

Our banking subsidiaries' major businesses involve taking deposits and making loans. Hence, a key role of liquidity management is to ensure that customers have timely access to funds from deposits and loans. Liquidity management also involves maintaining sufficient liquidity to repay wholesale borrowings, pay operating expenses and support extraordinary funding requirements when necessary.

From an external issuance perspective, during 2014, we created a \$3.0 billion Global Note Program for CBNA. On December 1, 2014, CBNA issued \$1.5 billion in senior notes under this program, consisting of \$750 million of three-year fixed-rate notes and \$750 million in five-year fixed-rate notes. This debt represents a key source of unsecured, term, and stable funding, further diversifies the funding sources of CBNA, and creates a more peer-like funding structure for the consolidated enterprise.

Liquidity Risk

We define liquidity risk as the risk that an entity will be unable to meet our payment obligations in a timely manner. We manage liquidity risk at the consolidated enterprise level, and for each material legal entity including us, CBNA and CBPA. Liquidity risk can arise due to contingent liquidity risk and/or funding liquidity risk.

Contingent liquidity risk is the risk that market conditions may reduce an entity's ability to liquidate, pledge and/or finance certain assets and thereby substantially reduce the liquidity value of such assets. Drivers of contingent liquidity risk include general market disruptions as well as specific issues regarding the credit quality and/or valuation of a security or loan, issuer or borrower and/or asset class.

Funding liquidity risk is the risk that market conditions and/or entity-specific events may reduce an entity's ability to raise funds from depositors and/or wholesale market counterparties. Drivers of funding liquidity risk may be idiosyncratic or systemic, reflecting impediments to operations and/or undermining of market confidence.

Factors Affecting Liquidity

Given the composition of their assets and borrowing sources, contingent liquidity at both CBNA and CBPA would be materially affected by such events as deterioration of financing markets for high-quality securities (e.g., mortgage-backed securities and other instruments issued by the GNMA, FNMA and the FHLMC), by any inability of the FHLBs to provide collateralized advances and/or by a refusal of the FRB to act as lender of last resort in systemic stress. Given the quality of our unencumbered securities, the positive track record of the FHLBs in stress and the commitment of the FRB to continue as lender of last resort in systemic stress scenarios, we view contingent liquidity risk at our banking subsidiaries, both CBNA and CBPA, to be relatively modest, given the size and configuration of their respective balance sheets.

Given the structure of their balance sheets, funding liquidity of CBNA and CBPA would be materially affected by an adverse idiosyncratic event (e.g., a major loss, causing a perceived or actual deterioration in its financial condition), an adverse systemic event (e.g., default or bankruptcy of a significant capital markets participant), or a combination of both (e.g., the financial crisis of 2008-2010). However, during the financial crisis, our banking subsidiaries reduced their dependence on unsecured wholesale funding to virtually zero. Consequently, and despite ongoing exposure to a variety of idiosyncratic and systemic events, we view our funding liquidity risk to be relatively modest.

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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, 2015

	Moody's	Standard and Poor's	Fitch
Citizens Financial Group, Inc.:			
Long-term issuer	NR	BBB+	BBB+
Short-term issuer	NR	A-2	F2
Subordinated debt	NR	BBB	BBB
Preferred Stock	NR	BB+	BB-
Citizens Bank, N.A.:			
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
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 reliance on unsecured wholesale funding. At September 30, 2015, the majority of wholesale funding consisted of secured borrowings using high-quality liquid securities sold under agreements to repurchase (repurchase agreements) and FHLB advances secured primarily by high-quality residential loan collateral. Our dependence on short-term, unsecured and credit-sensitive funding continues to be relatively low.

Existing and evolving regulatory liquidity requirements represent another key driver of systemic liquidity conditions and liquidity management practices. The FRBG evaluates our liquidity as part of the supervisory process, and the Federal Reserve Board recently issued regulations that will require us to conduct regular liquidity stress testing over various time horizons and to maintain a buffer of highly liquid assets sufficient to cover expected net cash outflows and projected loss or impairment of funding sources for a short-term liquidity stress scenario. In addition, the Basel Committee has developed a set of internationally-agreed upon quantitative liquidity metrics: the LCR and the NSFR. The LCR was developed to ensure banks have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. In September 2014, the U.S. federal banking regulators published the final rule to implement the LCR. This rule also introduced a modified version of the LCR in the United States, which generally applies to BHCs not active internationally (institutions with less than \$10 billion of on-balance sheet foreign exposure), with total assets of greater than \$50 billion but less than \$250 billion. Under this definition, we are designated as a modified LCR company. As compared to the Basel Committee's version of the LCR, the version of the LCR issued by the U.S. federal banking regulators includes a narrower definition of high-quality liquid assets, different prescribed cash inflow and outflow assumptions for certain types of instruments and transactions and a shorter phase-in schedule that begins on January 1, 2015 and ends on January 1, 2017. Notably, as a modified LCR company, we are required to be 90% compliant beginning in January 2016, and 100% compliant beginning in January 2017. Achieving sustainable LCR compliance may require changes in the size and/or composition of our investment portfolio, the configuration of our discretionary wholesale funding portfolio, and our average cash position. We were compliant with the LCR as of September 30, 2015, and we expect to be fully compliant with the LCR as of the required implementation date of January 2016.

The NSFR was developed to provide a sustainable maturity structure of assets and liabilities and has a time horizon of one year. The Basel Committee contemplates that the NSFR, including any revisions, will be implemented as a minimum standard by January 1, 2018; however, the U.S. federal banking regulators have not yet published a proposed rule to implement the NSFR in the United States.

We continue to review 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 the applicable effective date.

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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, explanatory commentary relating to emerging risk trends and, as appropriate, recommended remedial strategies.

The mission of our Funding and Liquidity Unit is to deliver prudent levels of current, projected and contingent liquidity from stable sources, in a timely manner and at a reasonable cost, without significant adverse consequences. We seek to accomplish this mission by funding loans with stable deposits; by prudently controlling dependence on wholesale funding, particularly short-term unsecured funding; and by maintaining ample available liquidity, including a contingent liquidity buffer of unencumbered high-quality loans and securities.

As of September 30, 2015:

Core deposits, including loans and deposits held for sale, continued to be our primary source of funding and our consolidated period-end loan-to-deposit ratio was 96.2%;

Short-term unsecured wholesale funding was \$350 million, substantially offset by our net overnight position (which is defined as excess cash balances held at the Federal Reserve Banks plus federal funds sold minus federal funds purchased) of \$689 million;

Contingent liquidity was \$23.0 billion; net overnight position (defined above), totaled \$689 million; unencumbered liquid securities totaled \$17.0 billion; and available FHLB capacity primarily secured by mortgage loans totaled \$5.3 billion; and

Available discount window capacity, defined as available total borrowing capacity from the Federal Reserve based on identified collateral, is secured by non-mortgage commercial and consumer loans and totaled \$9.1 billion. Use of this borrowing capacity would likely be considered only during exigent circumstances.

The Funding and Liquidity Unit monitors a variety of liquidity and funding metrics, including specific risk threshold limits. The metrics are broadly classified as follows:

Current liquidity sources and capacities, including excess cash at the Federal Reserve Banks, free and liquid securities and available and secured FHLB borrowing capacity;

Contingent stressed liquidity, including idiosyncratic, systemic and combined stress scenarios, in addition to evolving regulatory requirements such as the LCR and the NSFR; and

Current and prospective exposures, including secured and unsecured wholesale funding and spot and cumulative cash-flow gaps across a variety of horizons.

Further, certain of these metrics are monitored for each of us, our banking subsidiaries, and for our consolidated enterprise on a daily basis, including net overnight position, unencumbered securities, internal liquidity, available FHLB borrowing capacity and total contingent liquidity. In order to identify emerging trends and risks and inform funding decisions, specific metrics are also forecasted over a one-year horizon.

Cash flows from operating activities contributed \$831 million in the first nine months of 2015. Net cash used by investing activities was \$4.2 billion, primarily reflecting net securities available for sale portfolio purchases of \$5.4 billion and a net increase in loans and leases of \$4.3 billion, partially offset by proceeds from maturities, paydowns and sales of securities available for sale of \$5.8 billion. Cash provided by financing activities was \$1.8 billion, driven by a net increase in deposits of \$6.2 billion, partially offset by a decrease in federal funds purchased and securities sold under agreement to repurchase of \$3.0 billion and a decrease in other short-term borrowed funds of \$1.2 billion. These activities represented a cumulative decrease in cash and cash equivalents of \$1.5 billion, which, when added to the cash and cash equivalents balance of \$3.3 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of \$1.8 billion as of September 30, 2015.

For the first nine months of 2014, our operating activities contributed \$1.2 billion in net cash, included an increase in other liabilities of \$2.3 billion, depreciation, amortization and accretion of \$313 million, which was partially offset by an increase in other current assets of \$2.0 billion. For the first nine months of 2014, net cash used by investing activities was \$7.4 billion, primarily reflecting net securities available for sale portfolio purchases of \$5.6 billion, a net

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increase in loans and leases of \$4.1 billion, securities held to maturity portfolio purchases of \$1.2 billion, partially offset by proceeds from maturities, paydowns and sales of securities available for sale of \$3.5 billion. Finally, for the first nine months of 2014, cash contributed by financing activities was \$6.3 billion, including a net increase in other short-term borrowed funds of \$4.5 billion, a net increase in deposits of \$1.6

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billion and a net increase in federal funds purchased and securities sold under agreements to repurchase of \$393 million. These activities represented a cumulative increase in cash and cash equivalents of \$132 million, which, when added to cash and cash equivalents of \$2.8 billion at the beginning of the period, resulted in an ending balance of cash and cash equivalents of \$2.9 billion as of September 30, 2014.

Off-Balance Sheet Commitments

The following table presents our outstanding off-balance sheet commitments. See Note 13 "Commitments and Contingencies" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report:

(dollars in millions)	September 30, 2015	December 31, 2014	Change	Percent	
Commitment amount:					
Undrawn commitments to extend credit	\$55,506	\$55,899	(\$393)	(1)	(%)
Financial standby letters of credit	2,077	2,315	(238)	(10))
Performance letters of credit	45	65	(20)	(31))
Commercial letters of credit	63	75	(12)	(16))
Marketing rights	47	51	(4)	(8))
Risk participation agreements	39	19	20	105	
Residential mortgage loans sold with recourse	11	11	—	—	
Total	\$57,788	\$58,435	(\$647)	(1)	(%)

In June 2015, we entered into an agreement to purchase student loans on a quarterly basis in future periods.

Commencing on the effective date of the agreement and through the first quarter 2016, we committed to purchase a minimum of \$100 million to a maximum of \$163 million of loans per quarter for the subsequent three consecutive quarters. The maximum amount of cumulative loan purchases under the terms of the agreement is \$700 million. The agreement may be extended by the mutual agreement of the parties for an additional four quarters. We may terminate the agreement at will with payment of a variable termination fee.

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

Critical Accounting Estimates

Our unaudited interim Consolidated Financial Statements, which are included elsewhere in this report, are prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to establish accounting policies and make estimates that affect amounts reported in our audited Consolidated Financial Statements. An accounting estimate requires assumptions and judgments about uncertain matters that could have a material effect on our unaudited interim Consolidated Financial Statements. Estimates are made using facts and circumstances known at a point in time. Changes in those facts and circumstances could produce results substantially different from those estimates. The most significant accounting policies and estimates and their related application are discussed below. See Note 1 "Significant Accounting Policies" to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014, for further discussion of our significant accounting policies.

Allowance for Credit Losses

Management's estimate of probable losses in our loan and lease portfolios including unfunded lending commitments is recorded in the allowance for loan and lease losses and the reserve for unfunded lending commitments, at levels that we believe to be appropriate as of the balance sheet date. Our determination of such estimates is based on a periodic evaluation of the loan and lease portfolios and unfunded credit facilities, as well as other relevant factors. This

evaluation is inherently subjective and requires significant estimates and judgments of underlying factors, all of which are susceptible to change.

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The allowance for loan and lease losses and reserve for unfunded lending commitments could be affected by a variety of internal and external factors. Internal factors include portfolio performance such as delinquency levels, assigned risk ratings, the mix and level of loan balances, differing economic risks associated with each loan category and the financial condition of specific borrowers. External factors include fluctuations in the general economy, unemployment rates, bankruptcy filings, developments within a particular industry, changes in collateral values and factors particular to a specific commercial credit such as competition, business and management performance. The allowance for loan and lease losses may be adjusted to reflect our current assessment of various qualitative risks, factors and events that may not be measured in our statistical procedures. There is no certainty that the allowance for loan and lease losses and reserve for unfunded lending commitments will be appropriate over time to cover losses because of unanticipated adverse changes in any of these internal, external or qualitative factors.

The evaluation of the adequacy of the commercial, commercial real estate, and lease allowance for loan and lease losses and reserve for unfunded lending commitments is primarily based on risk rating models that assess probability of default, loss given default and exposure at default on an individual loan basis. The models are primarily driven by individual customer financial characteristics and are validated against historical experience. Additionally, qualitative factors may be included in the risk rating models. After the aggregation of individual borrower incurred loss, additional overlays can be made based on back-testing against historical losses and forward loss curve ratios. For nonaccruing commercial and commercial real estate loans with an outstanding balance of \$3 million or greater and for all commercial and commercial real estate TDRs (regardless of size), we conduct specific analysis on a loan level basis to determine the probable amount of credit loss. If appropriate, a specific allowance is established for the loan through a charge to the provision for credit losses. For all classes of impaired loans, individual loan measures of impairment may result in a charge-off to the allowance for loan and lease losses, if deemed appropriate. In such cases, the provision for credit losses is not affected when a specific reserve for at least that amount already exists.

Techniques utilized include comparing the loan's carrying amount to the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan's observable market price. The technique applied to each impaired loan is based on the workout officer's opinion of the most probable workout scenario. Historically, this has generally led to the use of the estimated present value of future cash flows approach. The fair value of underlying collateral will be used if the loan is deemed collateral dependent. For loans that use the fair value of underlying collateral approach, a charge-off assessment is performed quarterly to write the loans down to fair value.

For most non-impaired retail loan portfolio types, the allowance for loan and lease losses is based upon the incurred loss model utilizing the PD, LGD and exposure at default on an individual loan basis. When developing these factors, we may consider the loan product and collateral type, LTV ratio, lien position, borrower's credit, time outstanding, geographic location, delinquency status and incurred loss period. Incurred loss periods are reviewed and updated at least annually, and potentially more frequently when economic situations change rapidly, as they tend to fluctuate with economic cycles. Incurred loss periods are generally longer in good economic times and shorter in bad times. Certain retail portfolios, including SBO home equity loans, student loans, and commercial credit card receivables utilize roll rate models to estimate the ALLL. For the portfolios measured using the incurred loss model, roll rate models are also run as challenger models and can be used to support management overlays if deemed necessary. For home equity lines and loans, a number of factors impact the PD. Specifically, the borrower's current FICO score, the utilization rate, delinquency statistics, borrower income, current CLTV ratio and months on books are all used to assess the borrower's creditworthiness. Similarly, the loss severity is also impacted by various factors, including the utilization rate, the CLTV ratio, the lien position, the Housing Price Index change for the location (as measured by the Case-Shiller index), months on books and current loan balance.

When we are not in a first lien position, we use delinquency information on the first lien exposures obtained from third-party credit information providers in the credit assessment. For all first liens, whether owned by a third party or by us, an additional assessment is performed on a quarterly basis. In this assessment, the most recent three months' performance of the senior liens is reviewed for delinquency (90 days or more past due), modification, foreclosure and/or bankruptcy statuses. If any derogatory status is present, the junior lien will be placed on nonaccrual status regardless of its delinquency status on our books. This subsequent change to nonaccrual status will alter the treatment

in the PD model, thus affecting the reserve calculation.

In addition, the first lien exposure is combined with the second lien exposure to generate a CLTV. The CLTV is a more accurate reflection of the leverage of the borrower against the property value, as compared to the LTV from just the junior lien(s). The CLTV is used for modeling both the junior lien PD and LGD. This also impacts the Allowance for Loan Loss rates for the junior lien HELOCs.

The above measures are all used to assess the PD and LGD for HELOC borrowers for whom we originated the loans. There is also a portfolio of home equity products that were originated and serviced by others; however, we currently service some of the loans in this portfolio. The SBO portfolio is modeled as a separate class and the reserves for this class are generated by using the delinquency roll rate models as described below.

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For retail TDRs that are not collateral-dependent, allowances are developed using the present value of expected future cash flows, compared to the recorded investment in the loans. Expected re-default factors are considered in this analysis. Retail TDRs that are deemed collateral-dependent are written down to the fair market value of the collateral less costs to sell. The fair value of collateral is periodically monitored subsequent to the modification.

Changes in the levels of estimated losses, even if minor, can significantly affect management's determination of an appropriate allowance for loan and lease losses. For consumer loans, losses are affected by such factors as loss severity, collateral values, economic conditions, and other factors. A 1% and 5% increase in the estimated loss rate for consumer loans at December 31, 2014 would have increased the allowance by \$5 million and \$27 million, respectively. The allowance for loan and lease losses for our Commercial Banking segment is sensitive to assigned credit risk ratings and inherent loss rates. If 10% and 20% of the December 31, 2014 year ended loan balances (including unfunded commitments) within each risk rating category of our Commercial Banking segment had experienced downgrades of two risk categories, the allowance for loan and lease losses would have increased by \$30 million and \$59 million, respectively.

Commercial loans and leases are charged off to the allowance when there is little prospect of collecting either principal or interest. Charge-offs of commercial loans and leases usually involve receipt of borrower-specific adverse information. For commercial collateral-dependent loans, an appraisal or other valuation is used to quantify a shortfall between the fair value of the collateral less costs to sell and the recorded investment in the commercial loan. Retail loan charge-offs are generally based on established delinquency thresholds rather than borrower-specific adverse information. When a loan is collateral-dependent, any shortfalls between the fair value of the collateral less costs to sell and the recorded investment is promptly charged off. Placing any loan or lease on nonaccrual status does not by itself require a partial or total charge-off; however, any identified losses are charged off at that time.

For additional information regarding the allowance for loan and lease losses and reserve for unfunded lending commitments, see Note 1 "Significant Accounting Policies" to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014 and Note 4 "Allowance for Credit Losses, Nonperforming Assets and Concentrations of Credit Risk" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

Fair Value

We measure fair value using the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based upon quoted market prices in an active market, where available. If quoted prices are not available, observable market-based inputs or independently sourced parameters are used to develop fair value, whenever possible. Such inputs may include prices of similar assets or liabilities, yield curves, interest rates, prepayment speeds and foreign exchange rates.

We classify our assets and liabilities that are carried at fair value in accordance with the three-level valuation hierarchy:

Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar instruments; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by market data for substantially the full term of the asset or liability; and

Level 3. Unobservable inputs that are supported by little or no market information and that are significant to the fair value measurement.

Classification in the hierarchy is based upon the lowest level input that is significant to the fair value measurement of the asset or liability. For instruments classified in Level 1 and 2 where inputs are primarily based upon observable market data, there is less judgment applied in arriving at the fair value. For instruments classified in Level 3, management judgment is more significant due to the lack of observable market data.

Significant assets measured at fair value on a recurring basis include our mortgage-backed securities available for sale. These instruments are priced using an external pricing service and are classified as Level 2 within the fair value hierarchy. The service's pricing models use predominantly observable valuation inputs to measure the fair value of these securities under both the market and income approaches. The pricing service utilizes a matrix pricing

methodology to price our U.S. agency pass-through securities, which involves making adjustments to to-be-announced security prices based on a matrix of various mortgage-backed securities characteristics such as weighted-average maturities, indices and other pool-level information. Other agency and non-agency mortgage-backed securities are priced using a discounted cash flow methodology. This methodology includes estimating the cash flows expected to be received for each security using projected prepayment speeds and default rates based on historical statistics of the underlying collateral and current market conventions. These estimated cash flows are then discounted using market-

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based discount rates that incorporate characteristics such as average life, volatility, ratings, performance of the underlying collateral, and prevailing market conditions.

We review and update the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs in fair value measurements may result in a reclassification between the fair value hierarchy levels and are recognized based on year-end balances. We also verify the accuracy of the pricing provided by our primary external pricing service on a quarterly basis. This process involves using a secondary external vendor to provide valuations for our securities portfolio for comparison purposes. Any securities with discrepancies beyond a certain threshold are researched and, if necessary, valued by an independent outside broker. Fair value is also used on a nonrecurring basis to evaluate certain assets for impairment or for disclosure purposes. Examples of nonrecurring uses of fair value include mortgage servicing rights accounted for by the amortization method, loan impairments for certain loans and goodwill.

For additional information regarding our fair value measurements, see Note 1 "Significant Accounting Policies" to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014, and Note 2 "Securities," Note 7 "Mortgage Banking," and Note 12 "Derivatives" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

Goodwill

Goodwill is an asset that represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is not amortized, but is subject to annual impairment tests. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. A reporting unit is a business operating segment or a component of a business operating segment. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is deemed to be not impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment.

The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangible assets as if the reporting unit were being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

We review goodwill for impairment annually as of October 31 or more often if events or circumstances indicate that it is more likely than not that the fair value of one or more reporting units is below its carrying value. We rely on the income approach (discounted cash flow method) as the primary method for determining fair value. Market-based methods are used as benchmarks to corroborate the value determined by the discounted cash flow method.

We rely on several assumptions when estimating the fair value of our reporting units using the discounted cash flow method. These assumptions include the current discount rate, as well as projected loan losses, income taxes and capital retention rates. Discount rates are estimated based on the Capital Asset Pricing Model, which considers the risk-free interest rate, market risk premium, beta and unsystematic risk and size premium adjustments specific to a particular reporting unit. The discount rates are also calibrated on the assessment of the risks related to the projected cash flows of each reporting unit. Multi-year financial forecasts are developed for each reporting unit by considering several key business drivers such as new business initiatives, customer retention standards, market share changes, anticipated loan and deposit growth, forward interest rates, historical performance and industry and economic trends,

among other considerations. The long-term growth rate used in determining the terminal value of each reporting unit was estimated based on management's assessment of the minimum expected terminal growth rate of each reporting unit, as well as broader economic considerations such as gross domestic product and inflation.

We corroborate the fair value of our reporting units determined by the discounted cash flow method using market-based methods: a comparable company method and a comparable transaction method. The comparable company method measures fair value of a business by comparing it to publicly traded companies in similar lines of business. This involves identifying and selecting the comparable companies based on a number of factors (i.e., size, growth, profitability, risk and return on investment), calculating

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the market multiples (i.e., price-to-tangible book value, price-to-cash earnings and price-to-net income) of these comparable companies and then applying these multiples to our operating results to estimate the value of the reporting unit's equity on a marketable, minority basis. A control premium is then applied to this value to estimate the fair value of the reporting unit on a marketable, controlling basis. The comparable transaction method measures fair value of a business based on exchange prices in actual transactions and on asking prices for controlling interests in public or private companies currently offered for sale. The process involves comparison and correlation of us with other similar companies. Adjustments for differences in factors described earlier (i.e., size, growth, profitability, risk and return on investment) are also considered.

As a best practice, we also corroborate the fair value of our reporting units determined by the discounted cash flow method by adding the aggregated sum of these fair value measurements to the fair value of our non-segment operations and comparing this total to our observed market capitalization. As part of this process, we analyze the implied control premium to evaluate its reasonableness. All facts and circumstances are considered when completing this analysis, including observed transaction data and any additional external evidence supporting the implied control premium.

The valuation of goodwill is dependent on forward-looking expectations related to the performance of the U.S. economy and our associated financial performance. The prolonged delay in the full recovery of the U.S. economy, and the impact of that delay on earnings expectations, prompted a goodwill impairment test as of June 30, 2013. Although the U.S. economy has demonstrated signs of recovery, notably improvements in unemployment and housing, the pace and extent of recovery in these indicators, as well as in overall gross domestic product, have lagged previous expectations. The impact of the slow recovery is most evident in our Consumer Banking reporting unit. Accordingly, the percentage by which the estimated fair value of our Consumer Banking reporting unit exceeded its carrying value declined from 7% at December 31, 2011 to 5% at December 31, 2012.

During the first half of 2013, we observed further deceleration of expected growth for our Consumer Banking reporting unit's future profits based on forecasted economic growth for the U.S. economy and the continuing impact of the new regulatory framework in the financial industry. This deceleration was incorporated into our revised earnings forecast in the second quarter of 2013, and we subsequently concluded that there was a likelihood of greater than 50% that goodwill impairment had occurred as of June 30, 2013.

An interim goodwill impairment test was subsequently performed for our Consumer Banking and Commercial Banking reporting units. Step One of these tests indicated that (1) the fair value of our Consumer Banking reporting unit was less than its carrying value by 19% and (2) the fair value of our Commercial Banking reporting unit exceeded its carrying value by 27%. Step Two of the goodwill impairment test was subsequently performed for our Consumer Banking reporting unit, which resulted in the recognition of a pre-tax \$4.4 billion impairment charge in our Consolidated Statement of Operations for the period ending June 30, 2013. The impairment charge, which was a non-cash item, had minimal impact on our tier 1 risk-based and total risk-based capital ratios. The impairment charge had no impact on our liquidity position or tangible common equity.

We performed an annual test for impairment of goodwill for both reporting units as of October 31, 2014. As of this testing date, the percentage by which the fair value of our Consumer Banking reporting unit exceeded its carrying value was 12%, and the percentage by which the fair value of our Commercial Banking reporting unit exceeded its carrying value was 9%.

We based the fair value estimates used in our annual goodwill impairment testing on assumptions we believe to be representative of assumptions that a market participant would use in valuing the reporting units but that are unpredictable and inherently uncertain, including estimates of future growth rates and operating margins and assumptions about the overall economic climate and the competitive environment for our reporting units. There can be no assurances that future estimates and assumptions made for purposes of goodwill testing will prove accurate predictions of the future. If the assumptions regarding business plans, competitive environments or anticipated growth rates are not achieved, we may be required to record goodwill impairment charges in future periods.

For additional information regarding our goodwill impairment testing, see Note 1 "Significant Accounting Policies" to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31,

2014 and Note 6 “Goodwill” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

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Income Taxes

Accrued income taxes are reported as a component of either other assets or other liabilities, as appropriate, in the Consolidated Balance Sheets and reflect our estimate of income taxes to be paid or that effectively have been prepaid. Deferred income tax assets and liabilities represent the amount of future income taxes to be paid or that effectively have been prepaid, and the net balance is reported as an asset or liability in the Consolidated Balance Sheets. We determine the realization of the deferred tax asset based upon an evaluation of the four possible sources of taxable income: (1) the future reversals of taxable temporary differences; (2) future taxable income exclusive of reversing temporary differences and carryforwards; (3) taxable income in prior carryback years; and (4) tax planning strategies. In projecting future taxable income, we utilize forecasted pre-tax earnings, adjust for the estimated book tax differences and incorporate assumptions, including the amount of income allocable to taxing jurisdictions. These assumptions require significant judgment and are consistent with the plans and estimates that we use to manage the underlying businesses. The realization of the deferred tax assets could be reduced in the future if these estimates are significantly different than forecasted.

We are subject to income tax in the United States and multiple state and local jurisdictions. The tax laws and regulations in each jurisdiction may be interpreted differently in certain situations, which could result in a range of outcomes. Thus, we are required to exercise judgment regarding the application of these tax laws and regulations. We evaluate and recognize tax liabilities related to any tax uncertainties. Due to the complexity of some of these uncertainties, the ultimate resolution may differ from the current estimate of tax liabilities or refunds. Our estimate of accrued income taxes, deferred income taxes and income tax expense can also change in any period as a result of new legislative or judicial guidance impacting tax positions, as well as changes in income tax rates. Any changes, if they occur, can be significant to our consolidated financial position, results of operations or cash flows.

For additional information regarding income taxes, see Note 1 "Significant Accounting Policies" to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014 and Note 11 "Income Taxes" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included elsewhere in this report.

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Risk Governance

We are committed to maintaining a strong, integrated and proactive approach to the management of all risks to which we are exposed in pursuit of our business objectives. A key aspect of our Board's responsibility as the main decision making body is setting our risk appetite to ensure that the levels of risk that we are willing to accept in the attainment of our strategic business and financial objectives are clearly understood.

To enable the Board to carry out its objectives, it has delegated authority for risk management activities, as well as governance and oversight of those activities, to a number of Board and executive management level risk committees. The key committees that specifically consider risk across the enterprise are set out in the diagram below.

Chief Risk Officer

The CRO directs our overall risk management function overseeing the compliance, regulatory, operational and credit risk management. In addition, the CRO has oversight of the management of market, liquidity and strategic risks. The CRO reports to our CEO and Board Risk Committee.

Risk Framework

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

First Line of Defense

The business lines (including their associated support functions) are the First Line of Defense and are accountable for owning and managing, within our defined risk appetite, the risks which exist in their respective business areas. The business lines are responsible for performing regular risk assessments to identify and assess the material risks that arise in their area of responsibility, complying with relevant risk policies, testing and certifying the adequacy and effectiveness of their controls on a regular basis, establishing and documenting operating procedures and establishing and owning a governance structure for identifying and managing risk.

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Second Line of Defense

The Second Line of Defense includes independent monitoring and control functions accountable for developing and ensuring implementation of risk and control frameworks, oversight of risk, financial management and valuation, and regulatory compliance. This centralized risk function is appropriately independent from the business and is accountable for overseeing and challenging our business lines on the effective management of their risks. This risk function utilizes training, communications and awareness to provide expert support and advice to the business lines. This includes interpreting the risk policy standards and risk management framework, overseeing compliance by the businesses with policies and responsibilities, including providing relevant management information and escalating concerns where appropriate.

The Executive Risk Committee, chaired by the CRO, actively considers our inherent material risks, analyzes our overall risk profile and seeks confirmation that the risks are being appropriately identified, assessed and mitigated.

Third Line of Defense

Our internal audit function is the Third Line of Defense acting as an independent appraisal and assurance function. As an independent assurance function, internal audit ensures the key business risks are being managed to an acceptable level and that the risk management and internal control framework is operating effectively. Independent assessments are provided to our Audit Committee on a quarterly basis in the form of quarterly opinions. In addition, individual audit reports and monthly control reports are issued to executive management.

Risk Appetite

Risk appetite is a strategic business and risk management tool. We define our risk appetite as the maximum limit of acceptable risk beyond which we would either be unable to achieve our strategic objectives and capital adequacy obligations or would assume an unacceptable amount of risk to do so. The Board Risk Committee advises our Board of Directors in relation to current and potential future risk strategies, including determination of risk appetite and tolerance.

The principal non-market risks to which we are subject are: credit risk, operational risk, liquidity risk, strategic risk and reputational risk. We are also subject to market risks. Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and/or other relevant market rates or prices. Modest market risk arises from trading activities that serve customer needs, including hedging of interest rate and foreign exchange risk. As described below, more material market risk arises from our non-trading banking activities, such as loan origination and deposit gathering. We have established enterprise-wide policies and methodologies to identify, measure, monitor and report market risk. We actively manage both trading and non-trading market risks. We are also subject to liquidity risk, discussed under “—Liquidity.”

Our risk appetite framework and risk limit structure establishes guidelines to determine the balance between existing and desired levels of risk and supports the implementation, measurement and management of our risk appetite policy.

Credit Risk

Overview

Credit risk represents the potential for loss arising from a customer, counterparty, or issuer failing to perform in accordance with the contractual terms of the obligation. While the majority of our credit risk is associated with lending activities, we do engage with other financial counterparties for a variety of purposes including investing, asset and liability management, and trading activities. Given the financial impact of credit risk on our earnings and balance sheet, the assessment, approval, and management of credit risk represents a major part of our overall risk-management responsibility.

Objective

The credit risk management organization is responsible for approving credit transactions, monitoring portfolio performance, identifying problem loans, and ensuring remedial management.

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Organizational Structure

Management and oversight of credit risk is the responsibility of both the line of business and the second line of defense. The second line of defense, the independent Credit Risk Function, is led by the CCO who oversees all of our credit risk. The CCO reports to the Chief Risk Officer. The CCO, acting in a manner consistent with Board policies, has responsibility for, among other things, the governance process around policies, procedures, risk acceptance criteria, credit risk appetite, limits, and authority delegation. The CCO and his team also have responsibility for credit approvals for larger or more risky transactions and oversight of line of business credit risk activities. Reporting to the CCO are the heads of the second line of defense credit functions specializing in: Consumer Banking; Business Banking; Commercial Banking; Citizens Restructuring Management; Portfolio Analytics and Reporting; and Credit Policy and Administration. Each team under these leaders is composed of highly experienced credit professionals. The credit risk teams operate independently from the business lines to ensure decisions are not influenced by unbalanced objectives. Each team is composed of senior credit officers who possess extensive experience structuring and approving loans.

Governance

The primary mechanisms used to govern our credit risk function are our consumer and commercial credit policies. These policies outline the minimum acceptable lending standards that align with our desired risk appetite. Material issues or changes are identified by the individual committees and presented to the Credit Policy Committee, Executive Risk Committee and the Board for approval as required.

Key Management Processes

To ensure credit risks are managed within our risk appetite and business and risk strategies are achieved, we employ a comprehensive and integrated control program. The program's objective is to proactively (1) identify, (2) measure, (3) monitor, and (4) mitigate existing and emerging credit risks across the lifecycle (origination, account management/portfolio management, and loss mitigation and recovery).

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. These models are embedded in the loan origination system, which allows for real-time scoring and automated decisions for many of our products. Periodic validations are performed on our purchased and proprietary scores to ensure fit for purpose. When approving customers for a new loan or extension of an existing credit line, credit scores are used in conjunction with other credit risk variables such as affordability, length of term, collateral value, collateral type, and lien subordination.

The origination process is supported by dedicated underwriting teams that reside in the business line. The size of each team depends on the intensity of the approval process as the number of handoffs, documentation, and verification requirements differ substantially depending on the loan product.

To ensure proper oversight of the underwriting teams, lending authority is granted by credit risk to each underwriter. The amount of delegated authority depends on the experience of the individual. We periodically evaluate the performance of each underwriter and annually reauthorize their delegated authority. Only senior members of the credit risk team are authorized to grant significant exceptions to credit policies. It is not uncommon to make exceptions to established policies when compensating factors are present. These exceptions are capped at 5% of origination volume and tracked separately to ensure performance expectations are achieved.

Once an account is established, credit scores and collateral values are refreshed at regular intervals to allow for proactive identification of increasing or decreasing levels of credit risk. For accounts with contingent liability (revolving feature), credit policies have been developed that leverage the refreshed customer data to determine if a credit line should be increased, decreased, frozen, or closed. Lastly, behavioral modeling, segmentation, and loan modifications are used to cure delinquency, reduce the severity of loss, and maximize recoveries. Our approach to managing credit risk is highly analytical and, where appropriate, is automated, to ensure consistency and efficiency. One of the central tools used to manage credit risk is the Consumer and Small Business Credit Risk Dashboard. This dashboard is refreshed monthly and evaluates key dimensions of credit risk against defined control parameters,

commonly referred to as inner and outer limits. Inner limits are designed to alert senior management of unfavorable trends with sufficient lead time to address and implement corrective actions before the risks increase in materiality. Outer limits represent the maximum risk tolerance, which if breached, would necessitate immediate escalation and corrective action. All limits are recalibrated annually and aligned with pro forma budget expectations and desired risk profile.

The credit risk team is constantly evaluating current and projected economic conditions, internal credit performance in relation to budget and predefined risk tolerances, and current and expected regulatory guidance to determine the optimal balance

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of expansion and contraction policies. All policy change proposals receive intense scrutiny and discussion prior to approval and implementation. This process ensures decisions are made based on profit-based analytics with full consideration to operational and regulatory risks.

Commercial

On the commercial banking side of credit risk, the structure is broken into C&I loans and leases and CRE. Within C&I there are separate verticals established for certain specialty products (e.g., asset-based lending, leasing, franchise finance, health care, technology, mid-corporate). A "specialty vertical" is a stand-alone team of industry or product specialists. Substantially all activity that falls under the ambit of the defined industry or product is managed through a specialty vertical when one exists. CRE also operates as a specialty vertical.

Commercial credit risk management begins with defined credit products and policies. New credit products and material changes to existing credit products require multiple levels of review and approval. The initial level of review involves the engagement of risk disciplines from across the enterprise for a New Product Risk Assessment. This assessment process reviews the product description, strategic rationale and financial impact and considers the risk impact from multiple perspectives (Reputation, Operational, Regulatory, Market, Legal as well as Credit).

Commercial transactions are subject to individual analysis and approval at origination and, with few exceptions, are subject to a formal annual review requirement. The underwriting process includes the establishment and approval of Credit Grades that confirm the PD and LGD. Approval then requires both a business line approver and an independent Credit Approver. The approval level is determined by the size of the credit relationship as well as the PD with larger relationships and weaker PD's requiring the approval of more senior individuals. The checks and balances in the credit process and the independence of the credit approver function are designed to appropriately assess and sanction the level of credit risk being accepted, facilitate the early recognition of credit problems when they occur, and to provide for effective problem asset management and resolution. All authority to grant credit is delegated through the independent Credit Risk function and is closely monitored and regularly updated.

The primary factors considered in commercial credit approvals are the financial strength of the borrower, assessment of the borrower's management capabilities, cash flows from operations, industry sector trends, type and sufficiency of collateral, type of exposure, transaction structure, and the general economic outlook. While these are the primary factors considered, there are a number of other factors that may be considered in the decision process. In addition to the credit analysis conducted during the approval process at origination and annual review, our Credit Quality Assurance group performs testing to provide an independent review and assessment of the quality of the portfolio and new originations. This group conducts portfolio reviews on a risk-based cycle to evaluate individual loans, validate risk ratings, as well as test the consistency of the credit processes.

The maximum level of credit exposure to individual credit borrowers is limited by policy guidelines based on the perceived risk of each borrower or related group of borrowers. Concentration risk is managed through limits on industry (sector), loan type (asset class), and loan quality factors. We focus predominantly on extending credit to commercial customers with existing or expandable relationships within our Company footprint, although we do engage in lending opportunities outside our primary markets if we believe that the associated risks are acceptable and aligned with strategic initiatives. Geographic considerations occur at both the transactional level as well as the product level, as certain specialties operate on a national basis.

Our management of risk concentrations includes the establishment of sector and asset class limits. We have identified 34 sectors and established limits for 18 that we have deemed meaningful by virtue of size or inherent risk. These sector limits are reviewed and approved annually. Exposure against these limits is tracked on a monthly basis. The two largest sector concentrations are Industrials and CRE.

Apart from Industrials and CRE (which together make up 31% of the commercial utilization as of September 30, 2015), there are no material sector concentrations. As of September 30, 2015, our CRE outstandings amounted to 9% of total loans and leases. The Industrial sector includes basic C&I lending focused on general manufacturing. The sector is diversified and not managed as a specialized vertical. Our customers are local to our market and present no significant concentration.

Our credit grading system considers many components that directly correlate to loan quality and likelihood of repayment. Our assessment of a borrower's credit strength is reflected in our risk ratings for such loans, which are an integral component of our allowance for loan and lease losses methodology. When deterioration in credit strength is noted, a loan becomes subject to Watch Review. The Watch Review process involves senior representatives from the business line portfolio management team, the independent Credit Risk team, and our Citizens Restructuring Management group. As appropriate and consistent with regulatory definitions, the credit may be subject to classification as either Criticized or Classified, which would also trigger a credit rating downgrade. As such, the loan and relationship would be subject to more frequent review.

Substantially all loans categorized as Classified are managed by Citizens Restructuring Management, a specialized group of credit professionals that handles the day-to-day management of workouts, commercial recoveries, and problem loan sales. Its

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responsibilities include developing and implementing action plans, assessing risk ratings, determining the appropriateness of specific reserves relating to the loan, accrual status of the loan, and the ultimate collectability of loans in their portfolio.

Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and/or other relevant market rates or prices. Modest market risk arises from trading activities that serve customer needs, including hedging of interest rate and foreign exchange risk. As described below, more material market risk arises from our non-trading banking activities, such as loan origination and deposit-gathering. We have established enterprise-wide policies and methodologies to identify, measure, monitor and report market risk. We actively manage both trading and non-trading market risks.

Non-Trading Risk

We are exposed to market risk as a result of non-trading banking activities. This market risk is composed entirely of interest rate risk, as we have no direct currency or commodity risk and de minimis equity risk. This interest rate risk emerges from the balance sheet after the aggregation of our assets, liabilities and equity. We refer to this non-trading risk embedded in the balance sheet as "structural interest rate risk" or "interest rate risk in the banking book." Our mortgage servicing rights assets also contain interest rate risk as the value of the fee stream is impacted by the level of long-term interest rates.

A major source of structural interest rate risk is a difference in the repricing of assets, on the one hand, and liabilities and equity, on the other. First, there are differences in the timing of rate changes reflecting the maturity and/or repricing of assets and liabilities. For example, the rate earned on a residential mortgage may be fixed for 30 years; the rate paid on a certificate of deposit may be fixed only for a few months. Due to these timing differences, net interest income is sensitive to changes in the level and shape of the yield curve. Second, there are differences in the drivers of rate changes of various assets and liabilities. For example, commercial loans may reprice based on one-month LIBOR or prime; the rate paid on retail money market demand accounts may be only loosely correlated with LIBOR and depend on competitive demand for funds. Due to these basis differences, net interest income is sensitive to changes in spreads between certain indices or repricing rates.

Another important source of structural interest rate risk relates to the potential exercise of explicit or embedded options. For example, most consumer loans can be prepaid without penalty; and most consumer deposits can be withdrawn without penalty. The exercise of such options by customers can exacerbate the timing differences discussed above.

A primary source of our structural interest rate risk relates to faster repricing of floating rate loans relative to the retail deposit funding. This source of asset sensitivity is concentrated at the short end of the yield curve. Given the very low level of short-term interest rates, this risk is asymmetrical with significantly more upside benefit than potential exposure. The secondary source of our interest rate risk is driven by longer term rates comprising the rollover or reinvestment risk on fixed rate loans as well as the prepayment risk on mortgage related loans and securities funded by non-rate sensitive deposits and equity.

The primary goal of interest rate risk management is to control exposure to interest rate risk within policy limits approved by the Board. These limits and guidelines reflect our tolerance for interest rate risk over both short-term and long-term horizons. To ensure that exposure to interest rate risk is managed within this risk appetite, we must both measure the exposure and, as necessary, hedge it. The Treasury Asset and Liability Management team is responsible for measuring, monitoring and reporting on the structural interest rate risk position. These exposures are reported on a monthly basis to the Asset and Liability Committee and at Board meetings.

We measure structural interest rate risk through a variety of metrics intended to quantify both short-term and long-term exposures. The primary method that we use to quantify interest rate risk is simulation analysis in which we model net interest income from assets, liabilities and hedge derivative positions under various interest rate scenarios over a three-year horizon. Exposure to interest rate risk is reflected in the variation of forecasted net interest income across scenarios.

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Key assumptions in this simulation analysis relate to the behavior of interest rates and spreads, the changes in product balances and the behavior of loan and deposit clients in different rate environments. The most material of these behavioral assumptions relate to the repricing characteristics and balance fluctuations of deposits with indeterminate (i.e., non-contractual) maturities as well as the pace of mortgage prepayments.

As the future path of interest rates cannot be known in advance, we use simulation analysis to project net interest income under various interest rate scenarios including a “most likely” (implied forward) scenario as well as a variety of deliberately extreme

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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 benchmark interest rates. The net interest income simulation analyses do not include possible future actions that management might undertake to mitigate this risk. The current limit is an adverse change of 10% related to an instantaneous +/- 200 basis point move. As the table illustrates, our balance sheet is asset-sensitive: net interest income would benefit from an increase in interest rates. Exposure to a decline in interest rates is well within limit. It should be noted that the magnitude of any possible decline in interest rates is constrained by the low absolute starting levels of rates. While an instantaneous and severe shift in interest rates was used in this analysis, we believe that any actual shift in interest rates would likely be more gradual and would therefore have a more modest impact.

The table below summarizes our positioning in various parallel yield curve shifts:

Basis points	Estimated % Change in Net Interest Income over 12 Months		
	Tolerance Level	September 30, 2015	December 31, 2014
Instantaneous Change in Interest Rates			
+200	(10%)	13.3%	13.4%
+100		7.1	7.0
-100		(5.1)	(3.8)
-200	(10)	(5.4)	(4.3)
Gradual Change in Interest Rates			
+200		7.1	6.8
+100		3.7	3.5
-100		(2.7)	(2.3)
-200		(3.9)	(3.0)

As part of the routine risk management process, a wide variety of similar analyses are reported for each of the next three rolling years.

We also use a valuation measure of exposure to structural interest rate risk, Economic Value of Equity, as a supplement to net interest income simulations. Nevertheless, multi-year net interest income simulation is the main tool for managing structural interest rate risk.

We are asset sensitive and as such are positioned to benefit from an increase in interest rates. The magnitude of this asset-sensitivity has remained relatively stable over the past year.

We also had market risk associated with the value of the mortgage servicing right assets, which are impacted by the level of interest rates. As of September 30, 2015 and December 31, 2014, our mortgage servicing rights had a book value of \$164 million and \$166 million, respectively, and were carried at the lower of cost or fair value. As of September 30, 2015, and December 31, 2014, the fair value of the mortgage servicing rights was \$177 million and \$179 million, respectively. Given low interest rates over recent years, there is a valuation allowance of \$12 million and \$18 million on the asset as of September 30, 2015 and December 31, 2014, respectively. Depending on the interest rate environment, hedges may be used to stabilize the market value of the mortgage servicing right asset.

Trading Risk

We are exposed to market risk primarily through client facilitation activities including derivatives and foreign exchange products. Exposure is created as a result of the implied volatility and spreads of a select range of interest rates, foreign exchange rates and secondary loans. These trading activities are conducted through our two banking

subsidiaries, CBNA and CBPA.

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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. We will occasionally execute hedges against the spread that exists across the client facing trade and its offset in the market to maintain a low risk profile. In 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

Our market risk framework currently leverages RBS technology platform to aggregate, measure and monitor exposure against market risk limits. As part of our separation from RBS, we have entered into a Transitional Services Agreement pursuant to which RBS will continue to provide us with all necessary VaR and other risk measurements required for regulatory reporting related to interest rate derivatives and foreign exchange trading activities, as well as internal market risk reporting and general consultative services related to our market risk framework until the end of the Transitional Services Agreement. During the term of the Transitional Services Agreement, we intend to build out our own market risk organization and framework in order to gradually migrate away from reliance on services provided by RBS. As part of this process, we hired a head of market risk management to begin building out our stand-alone capabilities with respect to market risk management.

Given the low level of market risk, we have received the support of our U.S. banking regulators for relying on RBS' market risk technology platform. In managing our market risk, dealing authorities represent a key control in the management of market risk by setting the scope within which the business is permitted to operate. Dealing authorities are established jointly by designated senior business line and senior risk manager, and are reviewed at least annually. Dealing authorities are structured to accommodate the client facing trades, market offset trades and sets of hedges needed to maintain a low risk profile. Primary responsibility for keeping within established tolerances resides with the business. Key risk indicators, including a combined VaR for interest rate and foreign exchange rate risk, are monitored on a daily basis and reported against tolerances consistent with our risk appetite and business strategy to relevant business line management and risk counterparts.

Market Risk Measurement

We use VaR metrics, complemented with sensitivity analysis, market value and stress testing in measuring market risk. During the term of the Transition Services Agreement, we will continue to leverage RBS market risk measurement models for our foreign exchange and interest rate products, which are described further below, that capture correlation effects and allow for aggregation of market risk across risk types, business lines and legal entities. We measure and monitor market risk for both management and regulatory capital purposes.

Value-at-Risk Overview

RBS market risk measurement model is based on historical simulation. The VaR measure estimates the extent of any fair value losses on trading positions that may occur due to broad market movements (General VaR) such as changes in the level of interest rates, foreign exchange rates, equity prices and commodity prices. It is calculated on the basis that current positions remain broadly unaltered over the course of a given holding period. It is assumed that markets are sufficiently liquid to allow the business to close its positions, if required, within this holding period. VaR's benefit is that it captures the historic correlations of a portfolio. Based on the composition of our "covered positions," we also use a standardized add-on approach for the loan trading desk's Specific Risk capital which estimates the extent of any losses that may occur from factors other than broad market movements. In addition, for our secondary traded loans we calculate the VaR on the general interest rate risk embedded within the loans using a standalone model that replicates RBS general VaR methodology (the related capital is reflected on the "de minimis" line in the following section). RBS General VaR approach is expressed in terms of a confidence level over the past 500 trading days. The internal VaR measure (used as the basis of the main VaR trading limits) is a 99% confidence level with a one day

holding period, meaning that a loss greater than the VaR is expected to occur, on average, on only one day in 100 trading days (i.e., 1% of the time). Theoretically, there should be a loss event greater than VaR two to three times per year. The regulatory measure of VaR is done at a 99% confidence level with a 10-day holding period. The historical market data applied to calculate the VaR is updated on a 10 business day lag. Refer to “Market Risk Regulatory Capital” below for details of our 10-day VaR metrics for the quarters

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ended September 30, 2015 and 2014, including high, low, average and period end Value-at-Risk for interest rate and foreign exchange rate risks, as well as total VaR.

Market Risk Regulatory Capital

Effective January 1, 2013, the U.S. banking regulators adopted "Risk-Based Capital Guidelines: Market Risk" as the regulations covering the calculation of market risk capital (the "Market Risk Rule"). The Market Risk Rule, commonly known as Basel 2.5, substantially modified the determination of market risk-weighted assets and implemented a more risk sensitive methodology for the risk inherent in certain trading positions categorized as "covered positions." For the purposes of the market risk rule, all of our client facing trades, market offset trades and sets of hedges needed to maintain a low risk profile to qualify as "covered positions." The internal VaR measure is calculated based on the same population of trades that is utilized for regulatory VaR. The following table shows the results of our modeled and non-modeled measures for regulatory capital calculations:

(in millions)	For the Quarter Ended September 30, 2015				For the Quarter Ended September 30, 2014			
	Period End	Average	High	Low	Period End	Average	High	Low
Market Risk Category								
Interest Rate	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Foreign Exchange Currency Rate	—	—	—	—	—	—	1	—
Diversification Benefit	—	—	NM ⁽¹⁾	NM ⁽¹⁾	—	—	NM ⁽¹⁾	NM ⁽¹⁾
General VaR	—	—	—	—	—	—	1	—
Specific Risk VaR	—	—	—	—	—	—	—	—
Total VaR	\$—	\$—	\$1	\$—	\$—	\$—	\$1	\$—
Stressed General VaR	\$2	\$2	\$4	\$2	\$2	\$2	\$3	\$2
Stressed Specific Risk VaR	—	—	—	—	—	—	—	—
Total Stressed VaR	\$2	\$2	\$—	\$—	\$2	\$2	\$3	\$2
CFG Market Risk Regulatory Capital	\$8				\$7			
CFG Specific Risk Not Modeled Add-on	5				3			
CFG de Minimis Exposure Add-on	9				—			
CFG Total Market Risk Regulatory Capital	\$22				\$10			
CFG Market Risk-Weighted Assets	\$272				\$126			

⁽¹⁾ The high and low for the portfolio may have occurred on different trading days than the high and low for the components. Therefore, there is no diversification benefit shown for the high and low columns.

Stress VaR

SVaR is an extension of VaR, but uses a longer historical look back horizon that is fixed from January 1, 2005. This is done not only to identify headline risks from more volatile periods, but also to provide a counter balance to VaR which may be low during periods of low volatility. The holding period for profit and loss determination is 10 days. SVaR is also a component of market risk regulatory capital. SVaR for us is calculated under its own dynamic window regime as compared to RBS' static SVaR window. In a dynamic window regime, values of the 10-day, 99% VaR are calculated over all possible 260-day periods that can be obtained from the complete historical data set. Refer to "Market Risk Regulatory Capital" above for details of SVaR metrics, including high, low, average and period end SVaR for the combined portfolio.

Sensitivity Analysis

Sensitivity analysis is the measure of exposure to a single risk factor, such as a one basis point change in rates or credit spread. We conduct and monitor sensitivity on interest rates, basis spreads, foreign exchange exposures and option prices. Whereas VaR is based on previous moves in market risk factors over recent periods, it may not be an accurate predictor of future market moves. Sensitivity analysis complements VaR as it provides an indication of risk relative to each factor irrespective of historical market moves and is an effective tool in evaluating the appropriateness

of hedging strategies.

Stress Testing

Conducting a stress test of a portfolio consists of running risk models with the inclusion of key variables that simulate various historical or hypothetical scenarios. For historical stress tests, profit and loss results are simulated for selected time periods corresponding to the most volatile underlying returns while hypothetical stress tests aim to consider concentration risk, illiquidity

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under stressed market conditions and risk arising from the bank's trading activities that may not be fully captured by its other models. Hypothetical scenarios also assume that the market moves happen simultaneously and that no repositioning or hedging activity takes place to mitigate losses as events unfold. We generate stress tests of our trading positions on a regular basis. For example, we currently include a stress test that simulates a Lehman-type crisis scenario by taking the worst, 10-day peak to trough moves for the various risk factors that go into VaR from that period, and assuming they occurred simultaneously.

VaR Model Review and Validation

Market risk measurement models used are independently reviewed. RBS models, used under the Transitional Services Agreement, are subject to ongoing and independent review and validation that focuses on the model methodology. Independent review of market risk measurement models is the responsibility of RBS Risk Analytics. Aspects covered include challenging the assumptions used, the quantitative techniques employed and the theoretical justification underpinning them, and an assessment of the soundness of the required data over time. Where possible, the quantitative impact of the major underlying modeling assumptions will be estimated (e.g., through developing alternative models). Results of such reviews are shared with U.S. regulators. For the term of the Transitional Services Agreement, we and RBS expect to utilize the same independently validated VaR model for both management and regulatory reporting purposes. RBS market risk teams, including those providing consultative services to us under the Transitional Services Agreement, will conduct internal validation before a new or changed model element is implemented and before a change is made to a market data mapping. For example, RBS market risk teams also perform regular reviews of key risk factors that are used in the market risk measurement models to produce profit and loss vectors used in the VaR calculations. These internal validations are subject to independent re-validation by Group Risk Analytics and, depending on the results of the impact assessment, notification to the appropriate regulatory authorities for RBS and us may be required.

VaR Backtesting

Backtesting is one form of validation of the VaR model. The Market Risk Rule requires a comparison of our internal VaR measure to the actual net trading revenue (excluding fees, commissions, reserves, intra-day trading and net interest income) for each day over the preceding year (the most recent 250 business days). Any observed loss in excess of the VaR number is taken as an exception. The level of exceptions determines the multiplication factor used to derive the VaR and SVaR-based capital requirement for regulatory reporting purposes. We perform sub-portfolio backtesting as required under the Market Risk Rule, and as approved by our banking regulators, for interest rate and foreign exchange positions. The following table shows our daily net trading revenue and total internal, modeled VaR for the quarters ending September 30, 2015, March 31, 2015, December 31, 2014, and September 30, 2014. As of this reporting quarter we use a multiplication factor derived from our specific backtesting results and no longer that of RBS, as agreed with our banking regulators. This capital multiplier change resulted in a non-meaningful reduction of market risk capital on a pro-forma basis.

Daily VaR Backtesting: Sub-portfolio Level Backtesting

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information presented in the “Market Risk” section of Part I, Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. The design of any disclosure controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. In accordance with Rule 13a-15(b) of the Exchange Act, as of the end of the period covered by this quarterly report, an evaluation was carried out under the supervision and with the participation of the Company’s management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures, as of the end of the period covered by this quarterly report, were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to the Company’s management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this quarterly report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In addition to the matters described in the Company's Form 10-K for the year ended December 31, 2014, information required by this item is set forth in Note 13 "Commitments and Contingencies" in the Notes to the unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements of this report, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should consider the risks described under the caption "Risk Factors" in the Company's Form 10-K for the year ended December 31, 2014.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On August 3, 2015, the Company used the net proceeds of its public offering of \$250 million aggregate principal amount 4.350% Subordinated Notes due 2025 issued on July 31, 2015, to repurchase 9,615,384 shares of its outstanding common stock directly from RBS.

The following table summarizes the Company's repurchase of common stock described above:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased As Part of Publicly Announced Plans or Programs
August 3, 2015	9,615,384	\$26.00	Not Applicable	Not Applicable

See Note 9 "Stockholders' Equity" and Note 23 "Subsequent Events" in the Notes to the unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements of this report for further information.

ITEM 6. EXHIBITS

4.1 Subordinated Indenture between the Registrant and the Bank of New York Mellon dated as of September 28, 2012 (incorporated herein by reference to Exhibit 4.2 of Amendment No. 1 to Registration Statement on Form S-1, filed July 28, 2015)

4.2 Form of Eighth Supplemental Indenture between the Registrant and the Bank of New York Mellon (incorporated herein by reference to Exhibit 4.3 of Amendment No. 1 to Registration Statement on Form S-1, filed July 28, 2015)

4.3 Form of Subordinated Note (incorporated by reference herein through inclusion in Exhibit 4.3 of Amendment No. 1 to Registration Statement on Form S-1, filed July 28, 2015)

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

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31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

The following materials from the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2015, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements*

* Filed herewith.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 6, 2015.

CITIZENS FINANCIAL GROUP, INC.
(Registrant)

By: /s/ Ronald S. Ohsberg
Name: Ronald S. Ohsberg
Title: Executive Vice President & Controller
(Principal Accounting Officer and Authorized Officer)