

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

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

For the Quarterly Period Ended  
June 30, 2015

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

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

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

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

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

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

Yes  No

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

Yes  No

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

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

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

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

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## CITIZENS FINANCIAL GROUP, INC.

## GLOSSARY OF ACRONYMS AND TERMS

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

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



CITIZENS FINANCIAL GROUP, INC.

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

## CITIZENS FINANCIAL GROUP, INC.

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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## CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

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



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

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

## CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

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

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

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

## CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

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

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

## CITIZENS FINANCIAL GROUP, INC.

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

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

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

## CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

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

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

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

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

Basis of Presentation

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

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

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

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

Recent Accounting Pronouncements

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

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

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



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

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

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2 - SECURITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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





CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Realized gains and losses on AFS securities are shown below:

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

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

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

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

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

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

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

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

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

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

Securities sold under agreements to repurchase

Mortgage-backed securities - Agency	\$—	\$250	\$1,000	\$1,800	\$3,050
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For these securities sold under the agreements to repurchase, the Company would be obligated to provide additional collateral in the event of a significant decline in fair value of the collateral pledged. The Company manages the risk by monitoring the liquidity and credit quality of the collateral, as well as the maturity profile of the transactions.

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3 - LOANS AND LEASES

A summary of the loans and leases portfolio follows:

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

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

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

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

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

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

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

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

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

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

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

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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



CITIZENS FINANCIAL GROUP, INC.  
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## Nonperforming Assets

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

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

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

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

A summary of other nonperforming assets is as follows:

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

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

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A summary of key performance indicators is as follows:

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

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

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

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

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2015

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

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

December 31, 2014

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

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

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Additional information on impaired loans is as follows:

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

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

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

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



CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Troubled Debt Restructurings

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

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

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

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

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

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

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

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CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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



CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

#### Concentrations of Credit Risk

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

The following table presents balances of loans with these characteristics:

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

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

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CITIZENS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 5 - VARIABLE INTEREST ENTITIES

Low Income Housing Tax Credit Partnerships

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

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

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



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## NOTE 6 - GOODWILL

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

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

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

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

## NOTE 7 - MORTGAGE BANKING

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

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

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

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Changes related to MSR were as follows:

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

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

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

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

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

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

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



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

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

NOTE 8 - BORROWED FUNDS

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

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

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

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



Other short-term borrowed funds (primarily current portion of FHLB advances)	0.26	0.25
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The following is a summary of the Company's long-term borrowed funds:

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

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

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

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

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

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

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

NOTE 9 - STOCKHOLDERS' EQUITY

Preferred Stock

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

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

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

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

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

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

#### Treasury Stock

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

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

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

#### NOTE 10 - EMPLOYEE BENEFITS

##### Pension Plans

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

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

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

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

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

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

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

#### Postretirement Benefits

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

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

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

#### NOTE 11 - INCOME TAXES

##### Income Tax Provision

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

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

Deferred Tax Liability

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

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## NOTE 12 - DERIVATIVES

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

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

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

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

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

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

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

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

#### Institutional derivatives

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

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



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

Customer derivatives

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

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

#### Residential loan derivatives

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

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

#### Derivatives designated as hedging instruments

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

#### Fair value hedges

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

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

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

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

#### Cash flow hedges

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

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

during the originally specified time period.

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

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

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

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

Economic hedges

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

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

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

The Effect of Customer Derivatives and Economic Hedges on Net Income

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

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

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

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

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

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## NOTE 13 - COMMITMENTS AND CONTINGENCIES

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

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

#### Commitments to Extend Credit

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

#### Letters of Credit

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

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

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

#### Marketing Rights

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

#### Risk Participation Agreements

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

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

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

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

#### Other Commitments

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

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

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

#### Contingencies

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

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



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

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

#### Consumer Products Matters

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

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

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

#### Telephone Consumer Protection Act Litigation

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

#### LIBOR Litigation

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

#### Foreclosure-Related Expenses

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

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

#### Mortgage Repurchase Demands

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

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

NOTE 14 - RELATED PARTY TRANSACTIONS

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

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

The following is a summary of borrowed funds from RBS:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### NOTE 15 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

#### Recurring Fair Value Measurements

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

##### Securities Available for Sale

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

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

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

##### Residential loans held for sale

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

##### Commercial loans held for sale

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

##### Derivatives

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

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

Venture capital investments

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

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

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

(in millions)	Total	Level 1	Level 2	Level 3
Securities available for sale:				
Mortgage-backed securities	\$18,606	\$—	\$18,606	\$—
State and political subdivisions	9	—	9	—
Equity securities	17	—	17	—
U.S. Treasury	30	30	—	—
Total securities available for sale	18,662	30	18,632	—
Residential loans held for sale	318	—	318	—
Commercial loans held for sale	79	—	79	—
Total loans held for sale	397	—	397	—
Derivative assets:				
Interest rate swaps	639	—	639	—
Foreign exchange contracts	172	—	172	—
Other contracts	11			