CITIZENS FINANCIAL GROUP INC/RI
Form 10-Q
August 03, 2017

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

For the Quarterly Period Ended
June 30, 2017

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

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

Delaware	05-0412693
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

One Citizens Plaza, Providence, RI 02903
(Address of principal executive offices, including zip code)
(401) 456-7000
(Registrant's telephone number, including area code)
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.
[ü] 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).
[ü] Yes [ ] No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	[ü]	Accelerated filer	[ ]
Non-accelerated filer (Do not check if a smaller reporting company)	[ ]	Smaller reporting company	[ ]
		Emerging growth company	[ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ] Yes [ü] No
There were 500,671,099 shares of Registrant's common stock ($0.01 par value) outstanding on August 1, 2017.

Table of Contents

Glossary of Acronyms and Terms	3
Part I. Financial Information	5
Item 1. Financial Statements	63
Consolidated Balance Sheets as of June 30, 2017 (unaudited) and December 31, 2016 (unaudited)	64
Consolidated Statements of Operations (unaudited) for the Three and Six Months Ended June 30, 2017 and 2016	65
Consolidated Statements of Comprehensive Income (unaudited) for the Three and Six Months Ended June 30, 2017 and 2016	66
Consolidated Statements of Changes in Stockholders' Equity (unaudited) for the Six Months Ended June 30, 2017 and 2016	67
Consolidated Statements of Cash Flows (unaudited) for the Six Months	68

Ended June 30, 2017 and 2016	
Notes to the Consolidated Financial Statements (unaudited)	69
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	5
Item 3. Quantitative and Qualitative Disclosures about Market Risk	114
Item 4. Controls and Procedures	114
Part II. Other Information	115
Item 1. Legal Proceedings	115
Item 1A. Risk Factors	115
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	115
Item 5. Other Information	115
Item 6. Exhibits	115
Signature	117

CITIZENS FINANCIAL GROUP, INC.

GLOSSARY OF ACRONYMS AND TERMS

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

AFS	Available for Sale
ALLL	Allowance for Loan and Lease Losses
AOCI	Accumulated Other Comprehensive Income (Loss)
ASU	Accounting Standards Update
ATM	Automated Teller Machine
Board of Directors	The Board of Directors of Citizens Financial Group, Inc.
bps	Basis Points
C&I	Commercial and Industrial
Capital Plan Rule	Federal Reserve’s Regulation Y Capital Plan Rule
CBNA	Citizens Bank, N.A.
CBPA	Citizens Bank of Pennsylvania
CCAR	Comprehensive Capital Analysis and Review
CCB	Capital Conservation Buffer
CCO	Chief Credit Officer
CET1	Common Equity Tier 1
CEO	Chief Executive 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
Exchange Act	The Securities Exchange Act of 1934
Fannie Mae (FNMA)	Federal National Mortgage Association
FASB	Financial Accounting Standards Board
FDIA	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation (credit rating)
FRB	Federal Reserve Board of Governors and, as applicable, Federal Reserve Bank(s)
FTP	Funds Transfer Pricing
GAAP	Accounting Principles Generally Accepted in the United States of America
Ginnie Mae (GNMA)	Government National Mortgage Association
HELOC	Home Equity Line of Credit
HTM	Held To Maturity
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LIHTC	Low Income Housing Tax Credit
LTV	Loan to Value
MBS	Mortgage-Backed Securities

Mid-Atlantic	District of Columbia, Delaware, Maryland, New Jersey, New York, Pennsylvania, Virginia, and West Virginia
Midwest	Illinois, Indiana, Michigan, and Ohio

CITIZENS FINANCIAL GROUP, INC.

MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MSR	Mortgage Servicing Right
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
NSFR	Net Stable Funding Ratio
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income (Loss)
Parent Company	Citizens Financial Group, Inc. (the Parent Company of Citizens Bank of Pennsylvania, Citizens Bank, N.A. and other subsidiaries)
PD	Probability of Default
ROTCE	Return on Average Tangible Common Equity
RPA	Risk Participation Agreement
SBO	Serviced by Others loan portfolio
SEC	United States Securities and Exchange Commission
SVaR	Stressed Value at Risk
TDR	Troubled Debt Restructuring
VaR	Value at Risk
VIE	Variable Interest Entities

CITIZENS FINANCIAL GROUP, INC.

PART I. FINANCIAL INFORMATION

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

	Page
Forward-Looking Statements	6
Introduction	7
Financial Performance	8
Selected Consolidated Financial Data	9
Principal Components of Operations and Key Performance Metrics Used By Management	11
Results of Operations	17
Second Quarter 2017 vs. Second Quarter 2016	17
First Half 2017 vs. First Half 2016	18
Net Income	19
Net Interest Income	19
Noninterest Income	23
Provision for Credit Losses	24
Noninterest Expense	24
Income Tax Expense	25
Business Segments	26
Analysis of Financial Condition	34
Securities	34
Loans and Leases	35
Non-Core Assets	36
Allowance for Credit Losses and Nonperforming Assets	36
Derivatives	40
Deposits	41
Borrowed Funds	42
Capital and Regulatory Matters	43
Liquidity	49
Off-Balance Sheet Arrangements	53
Critical Accounting Estimates	53
Risk Governance	54
Market Risk	56

FORWARD-LOOKING STATEMENTS

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

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

- Negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of nonperforming assets, charge-offs and provision expense;
- The rate of growth in the economy and employment levels, as well as general business and economic conditions;
- Our ability to implement our strategic plan, including the cost savings and efficiency components, and achieve our indicative performance targets;
- Our ability to remedy regulatory deficiencies and meet supervisory requirements and expectations;
- Liabilities and business restrictions resulting from litigation and regulatory investigations;
- Our capital and liquidity requirements (including under regulatory capital standards, such as the U.S. Basel III capital rules) and our ability to generate capital internally or raise capital on favorable terms;
- The effect of changes in interest rates on our net interest income, net interest margin and our mortgage originations, mortgage servicing rights and mortgages held for sale;
- Changes in interest rates and market liquidity, as well as the magnitude of such changes, which may reduce interest margins, impact funding sources and affect the ability to originate and distribute financial products in the primary and secondary markets;
- The effect of changes in the level of checking or savings account deposits on our funding costs and net interest margin;
- Financial services reform and other current, pending or future legislation or regulation that could have a negative effect on our revenue and businesses, including the Dodd-Frank Act and other legislation and regulation relating to bank products and services;
- A failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors or other service providers, including as a result of cyber-attacks; and
- Management’s ability to identify and manage these and other risks.

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

More information about factors that could cause actual results to differ materially from those described in the forward-looking statements can be found under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

INTRODUCTION

Citizens Financial Group, Inc. is one of the nation’s oldest and largest financial institutions with $151.4 billion in assets as of June 30, 2017. Our mission is to help our customers, colleagues and communities reach their potential. Headquartered in Providence, Rhode Island, we offer a broad range of retail and commercial banking products and services to individuals, small businesses, middle-market companies, large corporations and institutions. We help our customers reach their potential by listening to them and by understanding their needs in order to offer tailored advice, ideas and solutions. In Consumer Banking, we provide an integrated experience that includes mobile and online banking, a 24/7 customer contact center and the convenience of approximately 3,200 ATMs and approximately 1,200 branches in 11 states in the New England, Mid-Atlantic and Midwest regions. Consumer Banking products and services include a full range of banking, lending, savings, wealth management and small business offerings. In Commercial Banking, we offer corporate, institutional and not-for-profit clients a full range of wholesale banking products and services including lending and deposits, capital markets, treasury services, foreign exchange and interest rate products, and asset finance. More information is available at www.citizensbank.com.

The following MD&A is intended to assist readers in their analysis of the accompanying Consolidated Financial Statements and supplemental financial information. It should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements in Item 1 of this Form 10-Q, as well as other information contained in this document and our 2016 Annual Report on Form 10-K.

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

FINANCIAL PERFORMANCE

Second Quarter 2017 compared with Second Quarter 2016 - Key Highlights

Second quarter 2017 net income of $318 million, increased 31% from $243 million in second quarter 2016, with earnings per diluted common share of $0.63, up 37% from $0.46 per diluted common share in second quarter 2016. Second quarter 2017 ROTCE of 9.6% improved from 7.3% in second quarter 2016.

- Second quarter 2017 results reflect a 31% increase in net income available to common stockholders, led by revenue growth of 9%, as net interest income increased 11% given 6% average loan growth and a 13 basis point increase in net interest margin as well as noninterest income growth of 4%.
- Second quarter 2017 results reflect a $26 million pre-tax impact related to impairments on aircraft lease assets which, in addition to provision expense of $70 million, resulted in total credit-related costs of $96 million.* The lease impairments, which largely relate to a non-core runoff portfolio, reduced noninterest income by $11 million and increased noninterest expense by $15 million.
- Continued strong focus on top-line growth and expense management helped drive positive operating leverage of 5%, a 2.8% improvement in the efficiency ratio and a 2.3% improvement in ROTCE.
- Before the impact of the lease impairments, Underlying revenue increased 10% with Underlying noninterest income growth of 7%.* Underlying operating leverage was 7% and the efficiency ratio improved 4.4%.*
- The provision for credit losses of $70 million in second quarter 2017 decreased $20 million from $90 million in second quarter 2016, largely reflecting continued improvement in portfolio credit quality, partially offset by an increase tied to a retail runoff portfolio and an increase in commercial net charge-offs. Including the $26 million of lease impairments, total credit-related costs were $96 million* in the second quarter 2017, up modestly from the prior year quarter.
- The second quarter 2017 tax rate reflected a 1.5% benefit primarily related to investments in historic tax credits.
- Fully diluted average common shares outstanding decreased by 23 million shares.

First Half 2017 compared with First Half 2016 - Key Highlights

First half 2017 net income of $638 million, increased 37% from $466 million in first half 2016, with earnings per diluted common share of $1.24, up 43% from $0.87 per diluted common share in first half 2016. Our first half 2017 results include a $23 million benefit, or $0.05 per diluted common share, related to the settlement of certain state tax matters. First half 2017 ROTCE of 9.6% improved from 7.0% in first half 2016.

On an Underlying basis*, excluding a $23 million benefit related to the settlement of certain state tax matters, first half 2017 net income of $615 million was up 32% from first half 2016. First half 2017 Underlying earnings per diluted common share of $1.19 was up 37% versus first half 2016.* First half 2017 Underlying ROTCE of 9.3% improved by 232 basis points relative to first half 2016.*

- First half results reflect a 37% increase in net income available to common stockholders, led by revenue growth of 11%, as net interest income increased 11%, given a 7% average loan growth and a 12 basis point increase in net interest margin, as well as noninterest income growth of 9%.
- Continued strong focus on top-line growth and expense management helped drive positive operating leverage of 6%, 3.4% improvement in the efficiency ratio from 65.2% to 61.8%, and a 2.7% improvement in ROTCE. On an Underlying basis*, the efficiency ratio improved 4.2% from 65.2% to 61.0%.
- First half 2017 results included a $26 million pre-tax impact related to impairments on aircraft lease assets, which increased the efficiency ratio by 79 basis points on an Underlying basis.*
- The first half 2017 tax rate reflected a 3.9% benefit driven by the settlement of certain state tax matters and investments in historic tax credits.
- Fully diluted average common shares outstanding decreased by 21 million shares.

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* "Underlying" results, as applicable, exclude a first quarter 2017 $23 million benefit related to the settlement of certain state tax matters and reclassify second quarter 2017 results for the pre-tax impact of $26 million of lease asset impairments to reflect their credit-related impact. For more information on the computation of key performance metrics and non-GAAP financial measures, see "—Principal Components of Operations and Key Performance Metrics

Used by Management — Key Performance Metrics and Non-GAAP Financial Measures."

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

SELECTED CONSOLIDATED FINANCIAL DATA

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

Our unaudited interim Consolidated Financial Statements have been prepared on the same basis as the audited Consolidated Financial Statements and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the information set forth herein. Our operating results for the three and six months ended June 30, 2017 are not necessarily indicative of those to be expected for the year ending December 31, 2017 or for any future period. The following selected consolidated financial data should be read in conjunction with our unaudited interim Consolidated Financial Statements and the Notes thereto.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in millions, except per-share amounts)	2017	2016	2017	2016
OPERATING DATA:				
Net interest income	$1,026	$923	$2,031	$1,827
Noninterest income	370	355	749	685
Total revenue	1,396	1,278	2,780	2,512
Provision for credit losses	70	90	166	181
Noninterest expense	864	827	1,718	1,638
Income before income tax expense	462	361	896	693
Income tax expense	144	118	258	227
Net income	$318	$243	$638	$466
Net income available to common stockholders	$318	$243	$631	$459
Net income per common share - basic	$0.63	$0.46	$1.24	$0.87
Net income per common share - diluted	$0.63	$0.46	$1.24	$0.87
OTHER OPERATING DATA:				
Return on average common equity [(1)]	6.48 %	4.94 %	6.50 %	4.70 %
Return on average tangible common equity [(1)]	9.57	7.30	9.62	6.96
Return on average total assets [(1)]	0.85	0.69	0.86	0.67
Return on average total tangible assets [(1)]	0.89	0.72	0.90	0.70
Efficiency ratio [(1)]	61.94	64.71	61.81	65.18
Operating leverage [(1)] [(2)]	4.76	8.16	5.79	6.20
Net interest margin [(1)]	2.97	2.84	2.97	2.85

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

(dollars in millions)	June 30, 2017	December 31, 2016
BALANCE SHEET DATA:		
Total assets	$151,407	$149,520
Loans and leases [3]	109,046	107,669
Allowance for loan and lease losses	(1,219)	(1,236)
Total securities	25,115	25,610
Goodwill	6,887	6,876
Total liabilities	131,343	129,773
Total deposits	113,613	109,804
Federal funds purchased and securities sold under agreements to repurchase	429	1,148
Other short-term borrowed funds	2,004	3,211
Long-term borrowed funds	13,154	12,790
Total stockholders' equity	20,064	19,747
OTHER BALANCE SHEET DATA:		
Asset Quality Ratios:		
Allowance for loan and lease losses as a percentage of total loans and leases	1.12 %	1.15 %
Allowance for loan and lease losses as a percentage of nonperforming loans and leases	118.98	118.32
Nonperforming loans and leases as a percentage of total loans and leases	0.94	0.97
Capital Ratios:[4]		
CET1 capital ratio [5]	11.2	11.2
Tier 1 capital ratio [6]	11.4	11.4
Total capital ratio [7]	14.0	14.0
Tier 1 leverage ratio [8]	9.9	9.9

[1] See "—Principal Components of Operations and Key Performance Metrics Used By Management" for definitions of our key performance metrics.
[2] "Operating leverage" represents the period-over-period percent change in total revenue, less the period-over-period percent change in noninterest expense. For the purpose of the 2016 calculation, total revenue was $1.2 billion and $2.4 billion for the three and six months ended June 30, 2015, respectively, and noninterest expense was $841 million and $1.7 billion for the three and six months ended June 30, 2015, respectively.
[3] Excludes loans held for sale of $707 million and $625 million as of June 30, 2017 and December 31, 2016, respectively.
[4] U.S. Basel III transitional rules for institutions applying the Standardized approach to calculating risk-weighted assets became effective January 1, 2015. The capital ratios and associated components as of June 30, 2017 and December 31, 2016 are prepared using the U.S. Basel III Standardized transitional approach.
[5] "Common equity tier 1 capital ratio" represents CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
[6] "Tier 1 capital ratio" is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
[7] "Total capital ratio" is total capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
[8] "Tier 1 leverage ratio" is tier 1 capital divided by quarterly average total assets as defined under U.S. Basel III Standardized approach.

PRINCIPAL COMPONENTS OF OPERATIONS AND KEY PERFORMANCE METRICS USED BY MANAGEMENT

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

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

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

Key performance metrics and non-GAAP financial measures

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

- Return on average common equity, which we define as annualized net income available to common stockholders divided by average common equity;
- Return on average tangible common equity, which we define as annualized net income available to common stockholders divided by average common equity excluding average goodwill (net of related deferred tax liability) and average other intangibles;
- Return on average total assets, which we define as annualized net income divided by average total assets;
- Return on average total tangible assets, which we define as annualized net income divided by average total assets excluding average goodwill (net of related deferred tax liability) and average other intangibles;
- Efficiency ratio, which we define as the ratio of our total noninterest expense to the sum of net interest income and total noninterest income. We measure our efficiency ratio to evaluate the efficiency of our operations as it helps us monitor how costs are changing compared to our income. A decrease in our efficiency ratio represents improvement;
- Operating leverage, which we define as the percent change in total revenue, less the percent change in noninterest expense;
- Net interest margin, which we calculate by dividing annualized net interest income for the period by average total interest-earning assets, is a key measure that we use to evaluate our net interest income; and
- Common equity tier 1 capital ratio (U.S. Basel III Standardized fully phased-in basis), represents CET1 capital divided by total risk-weighted assets as defined under U.S Basel III Standardized approach.

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

We believe these non-GAAP measures provide useful information to investors because these are among the measures used by our management team to evaluate our operating performance and make day-to-day operating decisions. In addition, we believe our "Underlying" results in any period reflect our operational performance in that period and, accordingly, it is useful to consider our GAAP results and our "Underlying" results together. We believe this presentation also increases comparability of period-to-period results.

Other companies may use similarly titled non-GAAP financial measures that are calculated differently from the way we calculate such measures. Accordingly, our non-GAAP financial measures may not be comparable to similar measures used by other companies. We caution investors not to place undue reliance on such non-GAAP measures, but instead to consider them with the most directly comparable GAAP measure. Non-GAAP financial measures have

limitations as analytical tools, and should not be considered in isolation, or as a substitute for our results as reported under GAAP.
Non-GAAP measures are denoted throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" by the use of the term "Underlying" and/or are followed by an asterisk (*).

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

		As of and for the Three Months Ended June 30,				As of and for the Six Months Ended June 30,			
(dollars in millions)	Ref.	2017		2016		2017		2016	
Total revenue (GAAP)	A	$1,396		$1,278		$2,780		$2,512	
Noninterest expense (GAAP)	B	864		827		1,718		1,638	
Net income (GAAP)	C	318		243		638		466	
Net income available to common stockholders (GAAP)	D	318		243		631		459	
Return on average common equity:									
Average common equity (GAAP)	E	$19,659		$19,768		$19,560		$19,667	
Return on average common equity	D/E	6.48	%	4.94	%	6.50	%	4.70	%
Return on average tangible common equity:									
Average common equity (GAAP)	E	$19,659		$19,768		$19,560		$19,667	
Less: Average goodwill (GAAP)		6,882		6,876		6,879		6,876	
Less: Average other intangibles (GAAP)		2		2		1		2	
Add: Average deferred tax liabilities related to goodwill (GAAP)		534		496		533		488	
Average tangible common equity	F	$13,309		$13,386		$13,213		$13,277	
Return on average tangible common equity	D/F	9.57	%	7.30	%	9.62	%	6.96	%
Return on average total assets:									
Average total assets (GAAP)	G	$149,878		$142,179		$149,335		$140,479	
Return on average total assets	C/G	0.85	%	0.69	%	0.86	%	0.67	%
Return on average total tangible assets:									
Average total assets (GAAP)	G	$149,878		$142,179		$149,335		$140,479	
Less: Average goodwill (GAAP)		6,882		6,876		6,879		6,876	
Less: Average other intangibles (GAAP)		2		2		1		2	
Add: Average deferred tax liabilities related to goodwill (GAAP)		534		496		533		488	
Average tangible assets	H	$143,528		$135,797		$142,988		$134,089	
Return on average total tangible assets	C/H	0.89	%	0.72	%	0.90	%	0.70	%
Efficiency ratio:									
Efficiency ratio	B/A	61.94	%	64.71	%	61.81	%	65.18	%
Operating Leverage:									
Increase in total revenue		9.23	%	6.50	%	10.67	%	5.41	%
Increase (decrease) noninterest expense		4.47		(1.66	)	4.88		(0.79	)
Operating Leverage		4.76	%	8.16	%	5.79	%	6.20	%

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

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

(in millions, except share, per-share and ratio data)	Ref.	As of and for the Three Months Ended June 30, 2017	2016	As of and for the Six Months Ended June 30, 2017	2016
Noninterest income, Underlying:					
Noninterest income (GAAP)		$370	$355	$749	$685
Less: Lease impairment credit-related costs		(11)	—	(11)	—
Noninterest income, Underlying (non-GAAP)		$381	$355	$760	$685
Total revenue, Underlying:					
Total revenue (GAAP)	A	$1,396	$1,278	$2,780	$2,512
Less: Lease impairment credit-related costs		(11)	—	(11)	—
Total revenue, Underlying (non-GAAP)	I	$1,407	$1,278	$2,791	$2,512
Noninterest expense, Underlying:					
Noninterest expense (GAAP)	B	$864	$827	$1,718	$1,638
Less: Lease impairment credit-related costs		15	—	15	—
Noninterest expense, Underlying (non-GAAP)	J	$849	$827	$1,703	$1,638
Pre-provision profit, Underlying:					
Pre-provision profit (GAAP)		$532	$451	$1,062	$874
Less: Lease impairment credit-related costs		(26)	—	(26)	—
Pre-provision profit, Underlying (non-GAAP)		$558	$451	$1,088	$874
Total credit-related costs, Underlying:					
Provision for credit losses (GAAP)		$70	$90	$166	$181
Add: Lease impairment credit-related costs		26	—	26	—
Total credit-related costs, Underlying (non-GAAP)		$96	$90	$192	$181
Income before income tax expense (GAAP)	K	$462	$361	$896	$693
Income tax expense and effective income tax rate, Underlying:					
Income tax expense (GAAP)	L	$144	$118	$258	$227
Less: Settlement of certain state tax matters		—	—	(23)	—
Income tax expense, Underlying (non-GAAP)	M	$144	$118	$281	$227
Effective income tax rate (GAAP)	L/K	31.13 %	32.61 %	28.82 %	32.73 %
Effective income tax rate, Underlying (non-GAAP)	M/K	31.13	32.61	31.34 %	32.73
Net income, Underlying:					
Net income (GAAP)	C	$318	$243	$638	$466
Less: Settlement of certain state tax matters		—	—	23	—
Net income, Underlying (non-GAAP)	N	$318	$243	$615	$466
Net income available to common stockholders, Underlying:					
Net income available to common stockholders (GAAP)	D	$318	$243	$631	$459
Less: Settlement of certain state tax matters		—	—	23	—
Net income available to common stockholders, Underlying (non-GAAP)	O	$318	$243	$608	$459

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

		As of and for the Three Months Ended June 30,		As of and for the Six Months Ended June 30,	
(in millions, except share, per-share and ratio data)	Ref.	2017	2016	2017	2016
Efficiency ratio and efficiency ratio, Underlying:					
Efficiency ratio	B/A	61.94 %	64.71 %	61.81 %	65.18 %
Efficiency ratio, Underlying (non-GAAP)	J/I	60.36	64.71	61.02	65.18
Operating Leverage, Underlying					
Increase in total revenue (GAAP)		9.23 %	6.50 %	10.67 %	5.41 %
Increase (decrease) noninterest expense (GAAP)		4.47	(1.66)	4.88	(0.79)
Operating Leverage		4.76 %	8.16 %	5.79 %	6.20 %
Increase in total revenue, Underlying (non-GAAP)		10.09 %	6.50 %	11.11 %	5.41 %
Increase (decrease) noninterest expense, Underlying (non-GAAP)		2.66	(1.66)	3.97	(0.79)
Operating Leverage, Underlying (non-GAAP)		7.43 %	8.16 %	7.14 %	6.20 %
Return on average common equity and return on average common equity, Underlying:					
Average common equity (GAAP)	E	$19,659	$19,768	$19,560	$19,667
Return on average common equity	D/E	6.48 %	4.94 %	6.50 %	4.70 %
Return on average common equity, Underlying (non-GAAP)	O/E	6.48	4.94	6.27	4.70
Return on average tangible common equity and return on average tangible common equity, Underlying:					
Average common equity (GAAP)	E	$19,659	$19,768	$19,560	$19,667
Less: Average goodwill (GAAP)		6,882	6,876	6,879	6,876
Less: Average other intangibles (GAAP)		2	2	1	2
Add: Average deferred tax liabilities related to goodwill (GAAP)		534	496	533	488
Average tangible common equity	F	$13,309	$13,386	$13,213	$13,277
Return on average tangible common equity	D/F	9.57 %	7.30 %	9.62 %	6.96 %
Return on average tangible common equity, Underlying (non-GAAP)	O/F	9.57	7.30	9.28	6.96
Return on average total assets and return on average total assets, Underlying:					
Average total assets (GAAP)	G	$149,878	$142,179	$149,335	$140,479
Return on average total assets	C/G	0.85 %	0.69 %	0.86 %	0.67 %
Return on average total assets, Underlying (non-GAAP)	N/G	0.85	0.69	0.83	0.67
Return on average total tangible assets and return on average total tangible assets, Underlying:					
Average total assets (GAAP)	G	$149,878	$142,179	$149,335	$140,479
Less: Average goodwill (GAAP)		6,882	6,876	6,879	6,876
Less: Average other intangibles (GAAP)		2	2	1	2
Add: Average deferred tax liabilities related to goodwill (GAAP)		534	496	533	488
Average tangible assets	H	$143,528	$135,797	$142,988	$134,089
Return on average total tangible assets	C/H	0.89 %	0.72 %	0.90 %	0.70 %
Return on average total tangible assets, Underlying (non-GAAP)	N/H	0.89	0.72	0.87	0.70
Net income per average common share - basic and diluted, Underlying:					

Average common shares outstanding - basic (GAAP)	P	506,371,846	528,968,330	507,903,141	528,519,489
Average common shares outstanding - diluted (GAAP)	Q	507,414,122	530,365,203	509,362,055	530,396,871
Net income available to common stockholders (GAAP)	D	$318	$243	$631	$459
Net income per average common share - basic (GAAP)	D/P	0.63	0.46	1.24	0.87
Net income per average common share - diluted (GAAP)	D/Q	0.63	0.46	1.24	0.87
Net income available to common stockholders, Underlying (non-GAAP)	O	318	243	608	459
Net income per average common share - basic, Underlying (non-GAAP)	O/P	0.63	0.46	1.20	0.87
Net income per average common share - diluted, Underlying (non-GAAP)	O/Q	0.63	0.46	1.19	0.87

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

		As of and for the Three Months Ended June 30,							
		2017				2016			
(dollars in millions)	Ref.	Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated
Net income available to common stockholders:									
Net income (GAAP)	R	$118	$187	$13	$318	$90	$164	($11)	$243
Less: Preferred stock dividends		—	—	—	—	—	—	—	—
Net income available to common stockholders (GAAP)	S	$118	$187	$13	$318	$90	$164	($11)	$243
Efficiency ratio:									
Total revenue (GAAP)	T	$886	$474	$36	$1,396	$821	$436	$21	$1,278
Noninterest expense (GAAP)	U	644	192	28	864	632	186	9	827
Efficiency ratio	U/T	72.64 %	40.48 %	NM	61.94 %	76.98 %	42.88 %	NM	64.71 %
Return on average total tangible assets:									
Average total assets (GAAP)		$59,244	$49,731	$40,903	$149,878	$55,660	$47,388	$39,131	$142,179
Less: Average goodwill (GAAP)		—	—	6,882	6,882	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	2	2	—	—	2	2
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	534	534	—	—	496	496
Average total tangible assets	V	$59,244	$49,731	$34,553	$143,528	$55,660	$47,388	$32,749	$135,797
Return on average total tangible assets	R/V	0.80 %	1.51 %	NM	0.89 %	0.65 %	1.39 %	NM	0.72 %
Return on average tangible common equity:									
Average common equity (GAAP)(1)		$5,519	$5,617	$8,523	$19,659	$5,110	$5,040	$9,618	$19,768
Less: Average goodwill (GAAP)		—	—	6,882	6,882	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	2	2	—	—	2	2
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	534	534	—	—	496	496
Average tangible common equity (1)	W	$5,519	$5,617	$2,173	$13,309	$5,110	$5,040	$3,236	$13,386
Return on average tangible common	S/W	8.57 %	13.37 %	NM	9.57 %	7.09 %	13.04 %	NM	7.30 %

equity [1]

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

15

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

		As of and for the Six Months Ended June 30,							
		2017				2016			
(dollars in millions)	Ref.	Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated
Net income available to common stockholders:									
Net income (GAAP)	R	$213	$367	$58	$638	$161	$297	$8	$466
Less: Preferred stock dividends		—	—	7	7	—	—	7	7
Net income available to common stockholders (GAAP)	S	$213	$367	$51	$631	$161	$297	$1	$459
Efficiency ratio:									
Total revenue (GAAP)	T	$1,744	$954	$82	$2,780	$1,610	$835	$67	$2,512
Noninterest expense (GAAP)	U	1,291	382	45	1,718	1,248	373	17	1,638
Efficiency ratio	U/T	74.00 %	40.14 %	NM	61.81 %	77.52 %	44.73 %	NM	65.18 %
Return on average total tangible assets:									
Average total assets (GAAP)		$58,954	$49,488	$40,893	$149,335	$55,388	$46,346	$38,745	$140,479
Less: Average goodwill (GAAP)		—	—	6,879	6,879	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	1	1	—	—	2	2
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	533	533	—	—	488	488
Average total tangible assets	V	$58,954	$49,488	$34,546	$142,988	$55,388	$46,346	$32,355	$134,089
Return on average total tangible assets	R/V	0.73 %	1.50 %	NM	0.90 %	0.58 %	1.29 %	NM	0.70 %
Return on average tangible common equity:									
Average common equity (GAAP)(1)		$5,490	$5,573	$8,497	$19,560	$5,099	$4,915	$9,653	$19,667
Less: Average goodwill (GAAP)		—	—	6,879	6,879	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	1	1	—	—	2	2
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	533	533	—	—	488	488
Average tangible common equity (1)	W	$5,490	$5,573	$2,150	$13,213	$5,099	$4,915	$3,263	$13,277
Return on average tangible common equity (1)	S/W	7.83 %	13.28 %	NM	9.62 %	6.34 %	12.14 %	NM	6.96 %

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

RESULTS OF OPERATIONS

Second Quarter 2017 vs. Second Quarter 2016

- Net income and net income available to common stockholders of $318 million increased $75 million, or 31%, from $243 million in second quarter 2016;
- Net income per average common share, diluted, of $0.63, compared to $0.46 in second quarter 2016;
- Second quarter 2017 results reflect a $26 million pre-tax impact related to impairments on aircraft lease assets which, in addition to provision expense of $70 million, resulted in total credit-related costs of $96 million.* The lease impairments, which largely relate to a non-core runoff portfolio, reduced noninterest income by $11 million and increased noninterest expense by $15 million;
- Total revenue of $1.4 billion increased $118 million, or 9%, reflecting strong net interest income and noninterest income growth:

Net interest income increased 11%, to $1.0 billion from $923 million in second quarter 2016, given 6% average loan growth and a 13 basis point improvement in net interest margin;

Net interest margin of 2.97% reflected improved loan yields, driven by higher rates and balance sheet optimization initiatives, partially offset by higher funding costs and investment portfolio growth; and

Noninterest income increased 4% from second quarter 2016, as strength in capital markets fees, card fees, mortgage banking fees and letter of credit and loan fees was partially offset by the $11 million impact of finance lease impairments. Before the impact of finance lease impairments, Underlying noninterest income was up 7%.*

- Noninterest expense of $864 million increased $37 million, or 4%, compared to $827 million in second quarter 2016, reflecting higher other operating expense, driven by the $15 million impact of operating lease impairments and higher FDIC expense, as well as an increase in advertising and public relations costs. Results also reflect stable salaries and employee benefits and equipment expense, as well as an increase in outside services, occupancy and amortization of software expense. Before the impact of operating lease impairments, Underlying noninterest expense increased 3%;*
- The provision for credit losses of $70 million in second quarter 2017 decreased $20 million from $90 million in second quarter 2016, largely reflecting continued improvement in portfolio credit quality, partially offset by an increase tied to a retail runoff portfolio and an increase in commercial net charge-offs. Including the $26 million of lease impairments, total credit-related costs were $96 million* in second quarter 2017, up modestly from the prior year quarter;
- Net charge-offs of $75 million increased $10 million, or 15%, from $65 million in second quarter 2016. Allowance for loan and lease losses ("ALLL") of $1.2 billion remained stable compared to December 31, 2016. ALLL to total loans and leases ratio of 1.12% as of June 30, 2017, compared with 1.15% as of December 31, 2016. ALLL to nonperforming loans and leases ratio of 119% as of June 30, 2017, compared with 118% as of December 31, 2016;
- The effective tax rate for second quarter 2017 was 31.1%, compared with 32.6% in second quarter 2016, primarily due to investments in historic tax credits;
- Return on average common equity of 6.5% compared to 4.9% in second quarter 2016;
- Return on average tangible common equity of 9.6% improved 227 basis points, from 7.3% in second quarter 2016;
- Average interest-earning assets increased $8.1 billion, or 6%, reflecting 6% loan growth and a 7% increase in the investment portfolio; and
- Average deposits of $110.8 billion increased $6.8 billion, or 7%, from $104.0 billion in second quarter 2016, reflecting strength in checking with interest, term, money market and savings.

First Half 2017 vs. First Half 2016

- Net income of $638 million increased $172 million compared to $466 million in first half 2016. Net income available to common stockholders of $631 million increased $172 million, compared to $459 million in first half 2016 as the benefit of an 11% increase in revenue and a reduction in the effective income tax rate from the settlement of certain state tax matters was partially offset by a 5% increase in noninterest expense;
- Net income per average common share was $1.24, diluted, compared to $0.87 in first half 2016. Excluding the impact related to settlement of certain state tax matters, Underlying net income per average common share for first half 2017, diluted, was $1.19;*
- First half 2017 results reflect a $26 million pre-tax impact related to impairments on aircraft lease assets. The lease impairments, which largely relate to a non-core runoff portfolio, reduced noninterest income by $11 million and increased noninterest expense by $15 million;
- Total revenue of $2.8 billion increased $268 million, or 11%, reflecting solid net interest income and noninterest income growth:

Net interest income of $2.0 billion increased $204 million, or 11%, compared to $1.8 billion in first half 2016, reflecting 7% average loan growth and a 12 basis point improvement in net interest margin;

Net interest margin of 2.97% increased 12 basis points, compared to 2.85% in first half 2016 reflecting improved loan growth, driven by higher rates and balance sheet optimization initiatives, partially offset by investment portfolio growth and higher funding costs; and

Noninterest income of $749 million increased $64 million, or 9%, from first half 2016 levels largely driven by strength in capital markets fees, card fees, mortgage banking fees and foreign exchange and letter of credit and loan fees partially offset by the $11 million impact of finance lease impairments.

- Noninterest expense of $1.7 billion, which includes the $15 million impact of operating lease impairments, increased $80 million, or 5%, compared to $1.6 billion in first half 2016. Results also reflect higher salaries and employee benefits expense largely tied to higher revenue-based incentives and merit increase, and increases in other categories given continued investments in the franchise, as well as higher FDIC expense and fraud and regulatory costs;
- Provision for credit losses of $166 million decreased $15 million, or 8%, from $181 million in first half 2016. Total credit-related costs of $192 million* including lease impairments, were up modestly from first half 2016;
- Net charge-offs of $162 million increased $14 million, or 9%, from $148 million in first half 2016. Allowance for loan and lease losses (“ALLL”) of $1.2 billion decreased $17 million compared to fourth quarter 2016. ALLL to total loans and leases was 1.12% as of June 30, 2017, compared with 1.15% as of December 31, 2016. ALLL to nonperforming loans and leases ratio was 119% as of June 30, 2017, compared with 118% as of December 31, 2016;
- Return on average common equity was 6.5% compared to 4.7% for first half 2016;
- Return on average tangible common equity was 9.6%, compared to 7.0% for first half 2016. Excluding the impact related to settlement of certain state tax matters, Underlying ROTCE was 9.3%*;
- Average loans and leases of $108.6 billion increased $7.1 billion, or 7%, from $101.5 billion in first half 2016, driven by a $4.2 billion increase in commercial loans and a $3.0 billion increase in retail loans;
- Average interest-bearing deposits of $82.6 billion increased $6.9 billion, or 9% from $75.7 billion in first half 2016, driven by strength in checking with interest, term, money market and savings; and
- The effective tax rate for first half 2017 of 28.8% compared with 32.7% in first half 2016. The first half 2017 tax rate reflected a $23 million benefit related to the settlement of certain state tax matters and investments in historic tax credits.

Net Income

Net income of $318 million, increased $75 million, or 31%, from $243 million in second quarter 2016. Net income totaled $638 million, up $172 million, or 37%, from $466 million in first half 2016.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
(dollars in millions)	2017	2016	Change	Percent	2017	2016	Change	Percent
Operating Data:								
Net interest income	$1,026	$923	$103	11 %	$2,031	$1,827	$204	11 %
Noninterest income	370	355	15	4	749	685	64	9
Total revenue	1,396	1,278	118	9	2,780	2,512	268	11
Provision for credit losses	70	90	(20)	(22)	166	181	(15)	(8)
Noninterest expense	864	827	37	4	1,718	1,638	80	5
Income before income tax expense	462	361	101	28	896	693	203	29
Income tax expense	144	118	26	22	258	227	31	14
Net income	$318	$243	$75	31	$638	$466	$172	37
Net income available to common stockholders	$318	$243	$75	31 %	$631	$459	$172	37 %
Return on average common equity	6.48 %	4.94 %	154 bps		6.50 %	4.70 %	180 bps	
Return on average tangible common equity	9.57 %	7.30 %	227 bps		9.62 %	6.96 %	266 bps	

Net Interest Income

Net interest income is our largest source of revenue and is the difference between the interest earned on interest-earning assets (usually loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (usually deposits and borrowings). The level of net interest income is primarily a function of the average balance of interest-earning assets, the average balance of interest-bearing liabilities and the spread between the effective yield on such assets and the effective cost of such liabilities. These factors are influenced by the pricing and mix of interest-earning assets and interest-bearing liabilities which, in turn, are impacted by external factors such as local economic conditions, competition for loans and deposits, the monetary policy of the FRB and market interest rates. For further discussion, refer to “—Risk Governance” and “—Market Risk — Non-Trading Risk,” include in this report.

The cost of our deposits and short-term wholesale borrowings is largely based on short-term interest rates, which are primarily driven by the FRB’s actions. However, the yields generated by our loans and securities are typically driven by both short-term and long-term interest rates, which are set by the market or, at times, by the FRB’s actions. The level of net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. In first half 2017, short-term and long-term interest rates have risen from very low levels by historical standards, with many benchmark rates, such as the federal funds rate and one- and three-month LIBOR, near 1.25%. Any declines in the yield curve or a decline in longer-term yields relative to short-term yields (a flatter yield curve) would have an adverse impact on our net interest margin and net interest income.

The FRB continued to follow its stated monetary policy during first half 2017 and increased the Fed Funds rate by 0.25% in both March and June 2017. The FRB targeted a 1.00% to 1.25% Fed Funds rate at June 2017, and interest rates are expected to gradually increase to more normal levels.

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

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

	Three Months Ended June 30,									
	2017				2016				Change	
(dollars in millions)	Average Balances	Income/ Expense	Yields/ Rates		Average Balances	Income/ Expense	Yields/ Rates		Average Balances	Yields/ Rates
Assets										
Interest-bearing cash and due from banks and deposits in banks	$2,081	$5	0.88	%	$1,948	$2	0.39	%	$133	49 bps
Taxable investment securities	25,732	154	2.39		24,050	141	2.35		1,682	4
Non-taxable investment securities	7	—	2.60		9	—	2.60		(2)	—
Total investment securities	25,739	154	2.39		24,059	141	2.35		1,680	4
Commercial	37,846	326	3.40		35,622	278	3.09		2,224	31
Commercial real estate	11,086	97	3.47		9,649	67	2.74		1,437	73
Leases	3,557	22	2.50		3,863	24	2.45		(306)	5
Total commercial	52,489	445	3.35		49,134	369	2.97		3,355	38
Residential mortgages	15,646	140	3.57		13,491	122	3.61		2,155	(4)
Home equity loans	1,668	24	5.74		2,231	31	5.64		(563)	10
Home equity lines of credit	13,765	126	3.68		14,477	115	3.18		(712)	50
Home equity loans serviced by others	668	11	7.12		899	16	7.11		(231)	1
Home equity lines of credit serviced by others	188	2	4.24		299	1	2.02		(111)	222
Automobile	13,574	110	3.23		13,972	103	2.95		(398)	28
Education(1)	7,490	98	5.26		5,407	69	5.07		2,083	19
Credit cards	1,693	45	10.71		1,600	44	11.18		93	(47)
Other retail	1,959	39	8.01		1,167	26	8.94		792	(93)
Total retail	56,651	595	4.21		53,543	527	3.95		3,108	26
Total loans and leases	109,140	1,040	3.80		102,677	896	3.48		6,463	32
Loans held for sale, at fair value	465	4	3.60		368	3	3.41		97	19
Other loans held for sale	162	2	5.51		440	4	4.00		(278)	151
Interest-earning assets	137,587	1,205	3.49		129,492	1,046	3.22		8,095	27
Allowance for loan and lease losses	(1,223)				(1,219)				(4)	
Goodwill	6,882				6,876				6	
Other noninterest-earning assets	6,632				7,030				(398)	
Total assets	$149,878				$142,179				$7,699	
Liabilities and Stockholders' Equity										
Checking with interest	$21,751	$20	0.36	%	$19,003	$8	0.16	%	$2,748	20 bps
Money market accounts	36,912	45	0.49		36,187	31	0.35		725	14
Regular savings	9,458	1	0.04		8,762	1	0.04		696	—
Term deposits	15,148	36	0.97		12,581	23	0.74		2,567	23
Total interest-bearing deposits	83,269	102	0.49		76,533	63	0.33		6,736	16
Federal funds purchased and securities sold under agreements to repurchase(2)	808	—	0.37		974	—	0.19		(166)	18
Other short-term borrowed funds	2,275	7	1.23		3,743	12	1.25		(1,468)	(2)
Long-term borrowed funds	13,647	70	2.05		10,321	48	1.87		3,326	18
Total borrowed funds	16,730	77	1.86		15,038	60	1.60		1,692	26
Total interest-bearing liabilities	99,999	179	0.72		91,571	123	0.54		8,428	18
Demand deposits	27,521				27,448				73	
Other liabilities	2,452				3,145				(693)	
Total liabilities	129,972				122,164				7,808	

Stockholders’ equity	19,906			20,015			(109)	
Total liabilities and stockholders’ equity	$149,878			$142,179			$7,699	
Interest rate spread			2.77 %			2.68 %		9
Net interest income		$1,026			$923			
Net interest margin			2.97 %			2.84 %		13 bps
Memo: Total deposits (interest-bearing and demand)	$110,790	$102	0.37 %	$103,981	$63	0.24 %	$6,809	13 bps

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

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

Net interest income of $1.0 billion increased $103 million, or 11%, compared to $923 million in second quarter 2016, driven by 6% average loan growth and a 13 basis point improvement in net interest margin.
Average interest-earning assets of $137.6 billion increased $8.1 billion, or 6%, from second quarter 2016, driven by a $3.4 billion increase in average commercial loans and leases, a $3.1 billion increase in average retail loans, and a $1.7 billion increase in total investment securities. Commercial loans and leases increased 7% on an average basis from the prior year quarter reflecting strength in commercial and commercial real estate partially offset by the $124 million average balance impact of the second quarter 2017 sale of $596 million of lower-return, non-strategic commercial loans and leases associated with our balance sheet optimization initiatives. Retail loans increased 6% from prior year quarter reflecting strong growth in education, mortgage and other unsecured retail loans, partially offset by lower home equity and auto balances.
Average deposits of $110.8 billion increased $6.8 billion from second quarter 2016 reflecting growth in all categories with particular strength in checking with interest and term. Total interest-bearing deposit costs increased 16 basis points compared to second quarter 2016. Total deposit costs increased 13 basis points reflecting the impact of higher short-term rates, partially offset by growth in lower cost deposits and continued pricing discipline.
Average borrowed funds of $16.7 billion increased $1.7 billion, or 11%, from second quarter 2016 as a $3.3 billion increase in long-term borrowings, which reflected growth in long-term senior debt and long-term FHLB borrowings as the term funding profile continues to be strengthened. These increases were partially offset by a $1.5 billion decrease in other short-term borrowed funds, mainly in short-term FHLB borrowed funds. Total borrowed funds costs of $77 million increased $17 million from second quarter 2016, primarily due to the issuance of long-term senior debt and rising interest rates.
Net interest margin of 2.97% increased 13 basis points compared to 2.84% in second quarter 2016, driven by improved loan yields, reflecting higher interest rates, improved loan mix and balance sheet optimization initiatives such as the second quarter 2017 sale of lower-return commercial loans and leases, and improvement in the portfolio mix toward more attractive risk-return asset categories. These benefits were partially offset by the impact of investment portfolio growth, higher amortization of securities premiums and higher deposit and funding costs, including new senior debt issuance. The average interest-earning asset yield of 3.49% increased 27 basis points from 3.22% in second quarter 2016, driven by the benefit of a 32 basis point improvement in loan yields and increases in short-term rates. The investment portfolio yield increased four basis points compared to the prior year quarter, reflecting an increase in long-term rates.

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

	Six Months Ended June 30,							
	2017			2016			Change	
(dollars in millions)	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Yields/ Rates
Assets								
Interest-bearing cash and due from banks and deposits in banks	$2,023	$8	0.76 %	$1,811	$4	0.40 %	$212	36 bps
Taxable investment securities	25,760	314	2.44	23,957	286	2.39	1,803	5
Non-taxable investment securities	8	—	2.60	9	—	2.60	(1)	0
Total investment securities	25,768	314	2.44	23,966	286	2.39	1,802	5
Commercial	37,682	638	3.36	34,820	542	3.08	2,862	28
Commercial real estate	10,955	184	3.34	9,379	129	2.71	1,576	63
Leases	3,626	45	2.49	3,890	48	2.45	(264)	4
Total commercial	52,263	867	3.30	48,089	719	2.96	4,174	34
Residential mortgages	15,466	276	3.56	13,478	248	3.68	1,988	(12)
Home equity loans	1,730	49	5.70	2,351	65	5.57	(621)	13
Home equity lines of credit	13,860	244	3.55	14,554	228	3.15	(694)	40
Home equity loans serviced by others	693	24	7.07	929	33	7.02	(236)	5
Home equity lines of credit serviced by others	198	4	3.98	320	3	2.11	(122)	187
Automobile	13,672	217	3.20	13,882	200	2.89	(210)	31
Education(1)	7,165	186	5.25	5,130	129	5.05	2,035	20
Credit cards	1,679	91	10.93	1,600	89	11.24	79	(31)
Other retail	1,880	74	7.98	1,137	50	8.80	743	(82)
Total retail	56,343	1,165	4.16	53,381	1,045	3.93	2,962	23
Total loans and leases	108,606	2,032	3.75	101,470	1,764	3.47	7,136	28
Loans held for sale, at fair value	487	8	3.45	337	6	3.54	150	(9)
Other loans held for sale	118	3	5.86	245	5	4.26	(127)	160
Interest-earning assets	137,002	2,365	3.46	127,829	2,065	3.23	9,173	23
Allowance for loan and lease losses	(1,229)			(1,216)			(13)	
Goodwill	6,879			6,876			3	
Other noninterest-earning assets	6,683			6,990			(307)	
Total noninterest-earning assets	12,333			12,650			(317)	
Total assets	$149,335			$140,479			$8,856	
Liabilities and Stockholders' Equity								
Checking with interest	$21,228	$33	0.31 %	$18,498	$15	0.15 %	$2,730	16 bps
Money market accounts	37,390	86	0.46	36,206	59	0.33	1,184	13
Regular savings	9,285	2	0.04	8,578	2	0.04	707	0
Term deposits	14,663	67	0.93	12,390	47	0.77	2,273	16
Total interest-bearing deposits	82,566	188	0.46	75,672	123	0.33	6,894	13
Federal funds purchased and securities sold under agreements to repurchase (2)	845	1	0.30	927	1	0.21	(82)	9
Other short-term borrowed funds	2,617	15	1.13	3,421	23	1.32	(804)	(19)
Long-term borrowed funds	13,033	130	2.00	10,108	91	1.81	2,925	19
Total borrowed funds	16,495	146	1.77	14,456	115	1.59	2,039	18
Total interest-bearing liabilities	99,061	334	0.68	90,128	238	0.53	8,933	15
Demand deposits	27,808			27,309			499	
Other liabilities	2,659			3,128			(469)	
Total liabilities	129,528			120,565			8,963	

Stockholders’ equity	19,807				19,914				(107)	
Total liabilities and stockholders’ equity	$149,335				$140,479				$8,856	
Interest rate spread			2.78	%			2.68	%		
Net interest income		$2,031				$1,827				
Net interest margin			2.97	%			2.85	%		12 bps
Memo: Total deposits (interest-bearing and demand)	$110,374	$188	0.34	%	$102,981	$123	0.24	%	$7,393	10 bps

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

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

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

Net interest income of $2.0 billion in first half 2017 increased $204 million, or 11%, compared to $1.8 billion in first half 2016, reflecting 7% average loan growth and a 12 basis point improvement in net interest margin.
Average interest-earning assets of $137.0 billion increased $9.2 billion, or 7%, from first half 2016, driven by a $4.2 billion increase in average commercial loans and leases, a $3.0 billion increase in average retail loans, and a $2.0 billion increase in average investments and interest-bearing cash and due from banks and deposits in banks. Commercial loan growth was driven by strength in commercial and commercial real estate. Retail loan growth was driven by strength in education, residential mortgage and other retail balances.
Average deposits of $110.4 billion increased $7.4 billion from first half 2016, reflecting growth in all categories with particular strength in checking with interest and term. Total interest-bearing deposit costs of $188 million increased $65 million, or 53%, from $123 million in 2016 and reflected a 13 basis point increase in interest-bearing deposit costs to 0.46%, primarily due to the impact of rising rates and a shift in mix toward commercial deposits. Checking with interest costs of 0.31% in 2017 compared with 0.15% in 2016, term deposit costs increased to 0.93% in 2017 from 0.77% in 2016, and money market account costs increased to 0.46% in 2017 from 0.33% in 2016.
Average total borrowed funds of $16.5 billion increased $2.0 billion from first half 2016, reflecting an increase in average long-term borrowed funds driven by issuances of senior notes. Total borrowed funds costs of $146 million increased $31 million from first half 2016. The total borrowed funds yield of 1.77% in first half 2017 increased 18 basis points from 1.59% in first half 2016 due to an increase in long-term rates.
Net interest margin of 2.97% increased 12 basis points compared to 2.85% in first half 2016, driven by improved loan yields reflecting both higher interest rates and balance sheet optimization initiatives. These results were partially offset by the impact of investment portfolio growth and higher deposit and funding costs. Average interest-earning asset yields of 3.46% increased 23 basis points from 3.23% in first half 2016, while average interest-bearing liability costs of 0.68% increased 15 basis points from 0.53% in first half 2016.

Noninterest Income

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

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)	2017	2016	Change	Percent	2017	2016	Change	Percent
Service charges and fees[1]	$129	$130	($1)	(1%)	$254	$256	($2)	(1%)
Card fees	59	51	8	16	119	101	18	18
Capital markets fees[1]	51	38	13	34	99	63	36	57
Trust and investment services fees	39	38	1	3	78	75	3	4
Letter of credit and loan fees[1]	31	28	3	11	60	55	5	9
Foreign exchange and interest rate products[1]	26	26	—	—	53	44	9	20
Mortgage banking fees	30	25	5	20	53	43	10	23
Securities gains, net	3	4	(1)	(25)	7	13	(6)	(46)
Other income [1][2]	2	15	(13)	(87)	26	35	(9)	(26)
Noninterest income	$370	$355	$15	4%	$749	$685	$64	9%

[1] In first quarter 2017, certain prior period noninterest income amounts reported in the Consolidated Statement of Operations were reclassified to enhance transparency and provide additional granularity, particularly with regard to fee income related to customer activity. These changes had no effect on net income as previously reported.
[2] Includes net securities impairment losses on securities available for sale recognized in earnings, bank-owned life insurance income and other income. The three and six months ended June 30, 2017 include $11 million of finance lease impairment charges.

Noninterest income of $370 million increased $15 million, or 4%, from $355 million in second quarter 2016. Excluding the impact of $11 million in finance lease impairments recorded in other income, Underlying* noninterest income of $381 million increased 7% from second quarter 2016. Second quarter 2017 results reflect strength in capital markets fees, card fees and mortgage banking fees. Capital markets fees increased $13 million, reflecting strength in loan syndications, including the benefit of strong market volumes and expanded capabilities. Card fees increased $8 million, reflecting the benefit of revised contract terms for processing fees and an increase in purchase volume. Mortgage banking fees increased $5 million from second quarter 2016 levels, reflecting an increase in production fees. Trust and investment services fees remained relatively stable as the benefit of growth in managed money assets and an increase in investment sales was offset by the impact of a shift in transaction sales mix toward managed money assets.

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

Noninterest income of $749 million increased $64 million, or 9%, compared to first half 2016 driven by capital market fees, card fees, mortgage banking fees, foreign exchange and interest rate products, letter of credit and loan fees and trust and investment service fees, partially offset by a reduction in securities gains, other income, including the impact of finance lease impairments, and service charges and fees. Before the impact of finance lease impairments, Underlying noninterest income was up 11%.* Capital markets fees increased $36 million, reflecting strength in loan syndications, given strong market volumes and investments made to broaden our capabilities. Card fees increased $18 million from first half 2016 results, reflecting the benefit of revised contract terms for processing fees and an increase in purchase volume. Mortgage banking fees increased $10 million from 2016 levels, reflecting improved MSR valuations and an increase in production fees. Foreign exchange and interest rate products increased $9 million from first half 2016 results.

Provision for Credit Losses

The provision for credit losses of $70 million in second quarter 2017 decreased $20 million from $90 million in second quarter 2016, largely reflecting continued improvement in portfolio credit quality, partially offset by an increase tied to a retail runoff portfolio and an increase in commercial net charge-offs. Second quarter 2017 net charge-offs of $75 million were $10 million higher than second quarter 2016. Total credit-related costs of $96 million,* including lease impairments, were up modestly from second quarter 2016.

The provision for credit losses was $166 million and $181 million for the six months ended June 30, 2017 and 2016, respectively. The $15 million decrease was primarily due to improving credit trends, partially offset by loan growth and higher net charge-offs. The first half 2017 results reflected a $4 million reserve build, compared to a $33 million reserve build in first half 2016. The difference is principally due to improved portfolio credit quality, offset by loan volume and an increase tied to a retail runoff portfolio. Net charge-offs for the first six months of 2017 of $162 million were $14 million higher than first half 2016. Total credit-related costs of $192 million,* including lease impairments, were up modestly from first half 2016.

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

Noninterest Expense

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

	Three Months Ended June 30,					Six Months Ended June 30,				
(in millions)	2017	2016	Change	Percent		2017	2016	Change	Percent	
Salaries and employee benefits	$432	$432	$—	—	%	$876	$857	$19	2	%
Outside services	96	86	10	12		187	177	10	6	
Occupancy	79	76	3	4		161	152	9	6	
Equipment expense	64	64	—	—		131	129	2	2	
Amortization of software	45	41	4	10		89	80	9	11	
Other operating expense[1]	148	128	20	16		274	243	31	13	
Noninterest expense	$864	$827	$37	4	%	$1,718	$1,638	$80	5	%

[1] The three and six months ended June 30, 2017 include $15 million of operating lease impairments charges.

Noninterest expense of $864 million increased $37 million, or 4%, from $827 million in second quarter 2016, reflecting higher other operating expense driven by the $15 million impact of operating lease impairments. Underlying noninterest expense increased 3%* from second quarter 2016. Salaries and employee benefits and equipment expenses were stable as a decrease tied to the timing of incentive payments offset an increase in compensation costs and the impact of our growth initiatives. Outside services increased $10 million compared to the prior year quarter, largely reflecting an increase in retail loan origination and servicing costs and costs tied to our efficiency initiatives. Other operating expense increased $20 million, reflecting the impact of the operating lease impairments, and higher FDIC expense and advertising and public relations costs, partially offset by lower credit-collection costs.

Noninterest expense of $1.7 billion in first half 2017 increased $80 million, or 5%, compared to first half 2016, reflecting the $15 million impact of operating lease impairments, an increase in FDIC expense and higher fraud and regulatory costs. Results also reflected an increase in salaries and employee benefits driven by higher revenue-based incentives and merit increase. First half 2017 results also reflected increases in outside services, occupancy, amortization of software and equipment expense. Before the impact of operating lease impairments, Underlying noninterest expense increased 4%* compared with first half 2016.

Income Tax Expense

Income tax expense was $144 million and $118 million in second quarter 2017 and 2016, respectively. This resulted in an effective tax rate of 31.1% and 32.6% in second quarter 2017 and 2016, respectively. The decrease in the effective tax rate was primarily attributable to the impact of investments in historic tax credits.

Income tax expense was $258 million and $227 million in first half 2017 and 2016, respectively. This resulted in an effective tax rate of 28.8% and 32.7% in first half 2017 and 2016, respectively. The decrease in the effective income tax rate was driven by the impact of the settlement of certain state tax matters, investments in historic tax credits, and the accounting method change for share-based compensation (FASB Accounting Standards Update 2016-09) which we adopted in January 2017 on a prospective basis.

At June 30, 2017, our net deferred tax liability was $740 million, compared with $714 million at December 31, 2016. The increase in the net deferred tax liability was primarily attributable to the tax effect of net unrealized gains on securities and derivatives, partially offset by the tax effect of differences in the timing of deductions and income items for financial statement purposes versus taxable income purposes. For further discussion, see Note 9 "Income Taxes" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

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

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

Business Segments

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

	As of and for the Three Months Ended June 30, 2017			
(dollars in millions)	Consumer Banking	Commercial Banking	Other[4]	Consolidated
Net interest income	$657	$344	$25	$1,026
Noninterest income	229	130	11	370
Total revenue	886	474	36	1,396
Noninterest expense	644	192	28	864
Profit before provision for credit losses	242	282	8	532
Provision for credit losses	60	1	9	70
Income (loss) before income tax expense (benefit)	182	281	(1)	462
Income tax expense (benefit)	64	94	(14)	144
Net income	$118	$187	$13	$318
Loans and leases (period-end) [1]	$58,537	$48,363	$2,853	$109,753
Average Balances:				
Total assets	$59,244	$49,731	$40,903	$149,878
Total loans and leases [1]	57,922	48,772	3,073	109,767
Deposits	75,107	28,744	6,939	110,790
Interest-earning assets	57,973	48,923	30,691	137,587
Key Performance Metrics:				
Net interest margin [2]	4.54 %	2.82 %	NM	2.97 %
Efficiency ratio	72.64	40.48	NM	61.94
Average loans to average deposits ratio [1]	77.12	169.68	NM	99.08
Return on average total tangible assets [2]	0.80	1.51	NM	0.89
Return on average tangible common equity [2] [3]	8.57	13.37	NM	9.57

[1] Includes loans held for sale.

[2] Ratios for the period ended June 30, 2017 are presented on an annualized basis.

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

[4] Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see "—Analysis of Financial Condition — Non-Core Assets."

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

	As of and for the Three Months Ended June 30, 2016			
(dollars in millions)	Consumer Banking	Commercial Banking	Other[4]	Consolidated
Net interest income	$602	$314	$7	$923
Noninterest income	219	122	14	355
Total revenue	821	436	21	1,278
Noninterest expense	632	186	9	827
Profit before provision for credit losses	189	250	12	451
Provision for credit losses	49	(1)	42	90
Income (loss) before income tax expense (benefit)	140	251	(30)	361
Income tax expense (benefit)	50	87	(19)	118
Net income (loss)	$90	$164	($11)	$243
Loans and leases (period-end) [1]	$54,999	$46,455	$2,947	$104,401
Average Balances:				
Total assets	$55,660	$47,388	$39,131	$142,179
Total loans and leases [1]	54,353	46,073	3,059	103,485
Deposits	71,863	25,113	7,005	103,981
Interest-earning assets	54,400	46,170	28,922	129,492
Key Performance Metrics:				
Net interest margin [2]	4.45%	2.74%	NM	2.84%
Efficiency ratio	76.98	42.88	NM	64.71
Average loans to average deposits ratio [1]	75.63	183.46	NM	99.52
Return on average total tangible assets [2]	0.65	1.39	NM	0.72
Return on average tangible common equity [2] [3]	7.09	13.04	NM	7.30

[1] Includes loans held for sale.
[2] Ratios for the period ended June 30, 2016 are presented on an annualized basis.
[3] Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 and then allocate that approximation to the segments based on economic capital.
[4] Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see "—Analysis of Financial Condition — Non-Core Assets."

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

	As of and for the Six Months Ended June 30, 2017			
(dollars in millions)	Consumer Banking	Commercial Banking	Other[4]	Consolidated
Net interest income	$1,295	$690	$46	$2,031
Noninterest income	449	264	36	749
Total revenue	1,744	954	82	2,780
Noninterest expense	1,291	382	45	1,718
Profit before provision for credit losses	453	572	37	1,062
Provision for credit losses	124	20	22	166
Income before income tax expense (benefit)	329	552	15	896
Income tax expense (benefit)	116	185	(43)	258
Net income	$213	$367	$58	$638
Loans and leases (period-end) [1]	$58,537	$48,363	$2,853	$109,753
Average Balances:				
Total assets	$58,954	$49,488	$40,893	$149,335
Total loans and leases [1]	57,617	48,465	3,129	109,211
Deposits	74,623	28,858	6,893	110,374
Interest-earning assets	57,668	48,605	30,729	137,002
Key Performance Metrics:				
Net interest margin [2]	4.53%	2.86%	NM	2.97%
Efficiency ratio	74.00	40.14	NM	61.81
Average loans to average deposits ratio [1]	77.21	167.94	NM	98.95
Return on average total tangible assets [2]	0.73	1.50	NM	0.90
Return on average tangible common equity [2] [3]	7.83	13.28	NM	9.62

[1] Includes loans held for sale.
[2] Ratios for the period ended June 30, 2017 are presented on an annualized basis.
[3] Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 and then allocate that approximation to the segments based on economic capital.
[4] Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see "—Analysis of Financial Condition — Non-Core Assets."

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

	As of and for the Six Months Ended June 30, 2016			
(dollars in millions)	Consumer Banking	Commercial Banking	Other[4]	Consolidated
Net interest income	$1,183	$614	$30	$1,827
Noninterest income	427	221	37	685
Total revenue	1,610	835	67	2,512
Noninterest expense	1,248	373	17	1,638
Profit before provision for credit losses	362	462	50	874
Provision for credit losses	112	8	61	181
Income (loss) before income tax expense (benefit)	250	454	(11)	693
Income tax expense (benefit)	89	157	(19)	227
Net income	$161	$297	$8	$466
Loans and leases (period-end) [1]	$54,999	$46,455	$2,947	$104,401
Average Balances:				
Total assets	$55,388	$46,346	$38,745	$140,479
Total loans and leases [1]	54,049	44,986	3,017	102,052
Deposits	71,367	24,973	6,641	102,981
Interest-earning assets	54,097	45,078	28,654	127,829
Key Metrics				
Net interest margin [2]	4.40 %	2.74 %	NM	2.85 %
Efficiency ratio	77.52	44.73	NM	65.18
Average loans to average deposits ratio [1]	75.73	180.14	NM	99.10
Return on average total tangible assets [2]	0.58	1.29	NM	0.70
Return on average tangible common equity [2] [3]	6.34	12.14	NM	6.96

[1] Includes loans held for sale.
[2] Ratios for the period ended June 30, 2016 are presented on an annualized basis.
[3] Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 and then allocate that approximation to the segments based on economic capital.
[4] Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see "—Analysis of Financial Condition — Non-Core Assets."

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

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

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

Provision for credit losses is allocated to each business segment based on actual net charge-offs that have been recognized by the business segment. The difference between the consolidated provision for credit losses and the business segments' net charge-offs is reflected in Other.
Noninterest income and expense directly managed by each business segment, including fees, service charges, salaries and benefits, and other direct revenues and costs are accounted for within each segment's financial results in a manner similar to our unaudited interim Consolidated Financial Statements. Occupancy costs are allocated based on utilization of facilities by the business segment. Noninterest expenses incurred by centrally managed operations or business segments that directly support another business segment's operations are charged to the applicable business segment based on its utilization of those services.
Income taxes are assessed to each business segment at a standard tax rate with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Other.
Developing and applying methodologies used to allocate items among the business segments is a dynamic process. Accordingly, financial results may be revised periodically as management systems are enhanced, methods of evaluating performance or product lines change, or our organizational structure changes.
Consumer Banking

	As of and for the Three Months Ended June 30,				As of and for the Six Months Ended June 30,			
(dollars in millions)	2017	2016	Change	Percent	2017	2016	Change	Percent
Net interest income	$657	$602	$55	9 %	$1,295	$1,183	$112	9 %
Noninterest income	229	219	10	5	449	427	22	5
Total revenue	886	821	65	8	1,744	1,610	134	8
Noninterest expense	644	632	12	2	1,291	1,248	43	3
Profit before provision for credit losses	242	189	53	28	453	362	91	25
Provision for credit losses	60	49	11	22	124	112	12	11
Income before income tax expense	182	140	42	30	329	250	79	32
Income tax expense	64	50	14	28	116	89	27	30
Net income	$118	$90	$28	31	$213	$161	$52	32
Loans and leases (period-end) (1)	$58,537	$54,999	$3,538	6	$58,537	$54,999	$3,538	6
Average Balances:								
Total assets	$59,244	$55,660	$3,584	6 %	$58,954	$55,388	$3,566	6 %
Total loans and leases (1)	57,922	54,353	3,569	7	57,617	54,049	3,568	7
Deposits	75,107	71,863	3,244	5	74,623	71,367	3,256	5
Interest-earning assets	57,973	54,400	3,573	7	57,668	54,097	3,571	7
Key Performance Metrics:								
Net interest margin (2)	4.54 %	4.45 %	9 bps		4.53 %	4.40 %	13 bps	
Efficiency ratio	72.64	76.98	(434) bps		74.00	77.52	(352) bps	
Average loans to average deposits ratio	77.12	75.63	149 bps		77.21	75.73	148 bps	

(1)

Return on average total tangible assets [2]	0.80	0.65	15 bps	0.73	0.58	15	bps
Return on average tangible common equity [2] [3]	8.57	7.09	148 bps	7.83	6.34	149	bps

[1] Includes loans held for sale.

[2] Ratios for the periods ended June 30, 2017 and 2016 are presented on an annualized basis.

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

Consumer Banking net income of $118 million increased $28 million, or 31%, from $90 million in second quarter 2016, reflecting a $65 million increase in total revenue relative to a $12 million increase in noninterest expense. Net interest income of $657 million increased $55 million, or 9%, from second quarter 2016, driven by a $3.6 billion increase in average loans led by mortgage, education and retail unsecured with higher loan yields that included the benefit of mix shift and higher rates, partially offset by an increase in deposit costs.

Noninterest income of $229 million increased $10 million, or 5%, from second quarter 2016, driven by higher card fees, which reflected the benefit of revised contract terms for processing fees and an increase in purchase volumes, along with higher mortgage banking fees, which reflect an increase in production fees, and higher wealth fees, partially offset by lower service charges and fees. Noninterest expense of $644 million increased $12 million, or 2%, from $632 million in second quarter 2016, reflecting higher outside services, FDIC expense, software amortization and advertising expense as well as increased occupancy costs related to branch rationalization. These results were partially offset by a decrease in salaries and benefits, largely reflecting a change in timing of incentive payments, as well as lower credit collection costs and fraud expense. Provision for credit losses of $60 million increased $11 million, or 22%, from $49 million in second quarter 2016, primarily driven by higher net charge-offs in auto and retail unsecured.

Consumer Banking net income of $213 million increased $52 million, or 32%, from $161 million in first half 2016, as the benefit of a $134 million increase in revenue more than offset a $43 million increase in noninterest expense. Net interest income of $1.3 billion increased $112 million, or 9% from first half 2016, driven by the benefit of a $3.6 billion increase in average loans led by mortgage, education and retail unsecured categories with improved loan yields which reflected the benefit of higher rates and improved mix, partially offset by an increase in deposit costs. Noninterest income increased $22 million, or 5%, from first half 2016, driven by an increase in card fees and mortgage banking fees partially offset by lower service charges and fees. Noninterest expense of $1.3 billion increased $43 million, or 3%, from first half 2016, driven by higher outside services, FDIC expense, salaries and benefits, occupancy costs, software amortization and advertising expense. These results were partially offset by lower credit collection costs. Provision for credit losses of $124 million increased $12 million, or 11%, from $112 million in first half 2016, largely driven by higher net charge-offs in auto.

Commercial Banking

	As of and for the Three Months Ended June 30,				As of and for the Six Months Ended June 30,			
(dollars in millions)	2017	2016	Change	Percent	2017	2016	Change	Percent
Net interest income	$344	$314	$30	10%	$690	$614	$76	12%
Noninterest income	130	122	8	7	264	221	43	19
Total revenue	474	436	38	9	954	835	119	14
Noninterest expense	192	186	6	3	382	373	9	2
Profit before provision for credit losses	282	250	32	13	572	462	110	24
Provision for credit losses	1	(1)	2	200	20	8	12	150
Income before income tax expense	281	251	30	12	552	454	98	22
Income tax expense	94	87	7	8	185	157	28	18
Net income	$187	$164	$23	14	$367	$297	$70	24
Loans and leases (period-end) (1)	$48,363	$46,455	$1,908	4	$48,363	$46,455	$1,908	4
Average Balances:								
Total assets	$49,731	$47,388	$2,343	5%	$49,488	$46,346	$3,142	7%
Total loans and leases (1)	48,772	46,073	2,699	6	48,465	44,986	3,479	8
Deposits	28,744	25,113	3,631	14	28,858	24,973	3,885	16
Interest-earning assets	48,923	46,170	2,753	6	48,605	45,078	3,527	8
Key Performance Metrics:								
Net interest margin (2)	2.82%	2.74%	8 bps		2.86%	2.74%	12 bps	
Efficiency ratio	40.48	42.88	(240) bps		40.14	44.73	(459) bps	
Average loans to average deposits ratio (1)	169.68	183.46	(1,378) bps		167.94	180.14	(1,220) bps	
Return on average total tangible assets (2)	1.51	1.39	12 bps		1.50	1.29	21 bps	

Return on average tangible common equity [2] [3]	13.37	13.04	33 bps	13.28	12.14	114 bps

[1] Includes loans held for sale.

[2] Ratios for the periods ended June 30, 2017 and 2016 are presented on an annualized basis.

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

Commercial Banking net income of $187 million increased $23 million, or 14%, from $164 million in second quarter 2016, driven by a $38 million increase in total revenue, partially offset by a $6 million increase in noninterest expense and a $2 million increase in provision for credit losses. Net interest income of $344 million increased $30 million, or 10%, from $314 million in second quarter 2016, driven by 6% average loan growth and improved loan yields, partially offset by higher deposit costs.

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

Average loans and leases increased $2.7 billion from second quarter 2016, driven by growth in Commercial Real Estate, Franchise Finance, Mid-corporate and Industry Verticals and Middle Market, partially offset by the impact of the third quarter 2016 transfer of loans and leases to non-core. Additionally, second quarter 2017 results include a $122 million decline in commercial average loans and leases resulting from the sale of $512 million of lower-return loan and leases related to balance sheet optimization efforts.

Noninterest income of $130 million increased $8 million, or 7%, from $122 million in second quarter 2016, reflecting strength in capital markets, letter of credit and loan fees as well as card fees, partially offset by the $4 million impact of the lease impairment. Noninterest expense of $192 million increased $6 million, or 3%, from $186 million in second quarter 2016, reflecting higher FDIC expense and higher outside services, software amortization and equipment expense. Results also reflect stable salaries and employee benefits as a reduction tied to a change in timing of incentive payments offset higher compensation expense and the impact of growth initiatives.

Commercial Banking net income of $367 million increased $70 million, or 24%, from $297 million in first half 2016, as the benefit of a $119 million increase in total revenue was partially offset by a $9 million increase in noninterest expense and a $12 million increase in provision for credit losses. Net interest income of $690 million increased $76 million, or 12%, from $614 million in first half 2016, reflecting a $3.5 billion increase in average loans and leases, improved loan and deposit spreads, and a $3.9 billion increase in average deposits.

Noninterest income of $264 million increased $43 million, or 19%, from first half 2016, reflecting strength in capital markets, foreign exchange and interest rate products and letter of credit and loan fees, partially offset by a $4 million impact related to finance lease impairments. Noninterest expense of $382 million increased $9 million, or 2%, from $373 million in first half 2016, largely driven by higher salaries and employee benefits, FDIC expense, software amortization and equipment expense, partially offset by a reduction in outside services. Provision for credit losses of $20 million increased $12 million from first half 2016, driven by higher net charge-offs.

Other

	As of and for the Three Months Ended June 30,				As of and for the Six Months Ended June 30,			
(in millions)	2017	2016	Change	Percent	2017	2016	Change	Percent
Net interest income	$25	$7	$18	NM	$46	$30	$16	53 %
Noninterest income	11	14	(3)	(21)	36	37	(1)	(3)
Total revenue	36	21	15	71	82	67	15	22
Noninterest expense	28	9	19	211	45	17	28	165
Profit before provision for credit losses	8	12	(4)	(33)	37	50	(13)	(26)
Provision for credit losses	9	42	(33)	(79)	22	61	(39)	(64)
(Loss) income before income tax benefit	(1)	(30)	29	97	15	(11)	26	236
Income tax benefit	(14)	(19)	5	26	(43)	(19)	(24)	(126)
Net income (loss)	$13	($11)	$24	218	$58	$8	$50	NM
Loans and leases (period-end) [1]	$2,853	$2,947	($94)	(3)	$2,853	$2,947	($94)	(3)
Average Balances:								
Total assets	$40,903	$39,131	$1,772	5 %	$40,893	$38,745	$2,148	6 %
Total loans and leases [1]	3,073	3,059	14	0	3,129	3,017	112	4
Deposits	6,939	7,005	(66)	(1)	6,893	6,641	252	4
Interest-earning assets	30,691	28,922	1,769	6	30,729	28,654	2,075	7

[1] Includes loans held for sale.

Other net income of $13 million increased $24 million from second quarter 2016. Net interest income increased $18 million, driven by higher residual funds transfer pricing and higher investment portfolio income, partially offset by higher funding costs. Noninterest income decreased $3 million, driven by a $7 million impact related to finance lease impairments. Noninterest expense increased $19 million from second quarter 2016, driven by the $15 million impact of operating lease impairments. Provision for credit losses decreased $33 million, reflecting a second quarter 2017 reserve release compared to a reserve build in second quarter 2016 and lower net charge-offs. Additionally, second quarter 2017 results include the impact of the sale of $84 million lower-return loans and leases related to balance sheet optimization efforts.

Other net income of $58 million increased from $8 million in first half 2016, driven by a $23 million benefit related to settlement of state tax matters that lowered our consolidated effective tax rate by 2.5%. Results also reflect lower net charge-offs and a reserve build of $4 million in first half 2017, compared to a reserve build of $33 million in first half 2016.

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

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

	June 30, 2017		December 31, 2016			
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Change in Fair Value	
Securities Available for Sale:						
U.S. Treasury and other	$12	$12	$30	$30	($18)	(60%)
State and political subdivisions	7	7	8	8	(1)	(13)
Mortgage-backed securities:						
Federal agencies and U.S. government sponsored entities	19,001	18,877	19,231	19,045	(168)	(1)
Other/non-agency	363	361	427	401	(40)	(10)
Total mortgage-backed securities	19,364	19,238	19,658	19,446	(208)	(1)
Total debt securities	19,383	19,257	19,696	19,484	(227)	(1)
Marketable equity securities	—	—	5	5	(5)	(100)
Other equity securities	—	—	12	12	(12)	(100)
Total equity securities	—	—	17	17	(17)	(100)
Total securities available for sale	$19,383	$19,257	$19,713	$19,501	($244)	(1%)
Securities Held to Maturity:						
Mortgage-backed securities:						
Federal agencies and U.S. government sponsored entities	$4,080	$4,072	$4,126	$4,094	($22)	(1%)
Other/non-agency	887	914	945	964	(50)	(5)
Total securities held to maturity	$4,967	$4,986	$5,071	$5,058	($72)	(1)
Total securities available for sale and held to maturity	$24,350	$24,243	$24,784	$24,559	($316)	(1%)

As of June 30, 2017, the fair value of the AFS and HTM securities portfolio decreased $316 million to $24.2 billion, compared with $24.6 billion as of December 31, 2016, primarily due to $530 million of securities that were sold at period-end.

As of June 30, 2017, our securities portfolio's average effective duration was 4.0 years compared with 4.3 years as of December 31, 2016, given lower long-term rates that drove an increase in securities' prepayment speeds. We manage the securities portfolio duration and convexity risk through asset selection and securities structure, and maintain duration levels within our risk appetite in the context of the broader Interest Rate Risk in the Banking Book framework and limits.

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

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

Loans and Leases

Our loans and leases are disclosed in portfolio segments and classes. Our loan and lease portfolio segments are commercial and retail. The classes of loans and leases are: commercial, commercial real estate, leases, residential mortgages, home equity loans, home equity lines of credit, home equity loans serviced by others, home equity lines of credit serviced by others, automobile, education, credit cards and other retail. Our SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others, which we now service a portion of internally. The following table shows the composition of loans and leases, including non-core loans, as of:

(in millions)	June 30, 2017	December 31, 2016	Change	Percent
Commercial	$37,329	$37,274	$55	— %
Commercial real estate	11,213	10,624	589	6
Leases	3,346	3,753	(407)	(11)
Total commercial	51,888	51,651	237	—
Residential mortgages	16,082	15,115	967	6
Home equity loans	1,606	1,858	(252)	(14)
Home equity lines of credit	13,696	14,100	(404)	(3)
Home equity loans serviced by others	647	750	(103)	(14)
Home equity lines of credit serviced by others	182	219	(37)	(17)
Automobile	13,449	13,938	(489)	(4)
Education [(1)]	7,720	6,610	1,110	17
Credit cards	1,711	1,691	20	1
Other retail	2,065	1,737	328	19
Total retail	57,158	56,018	1,140	2
Total loans and leases [(2)] [(3)]	$109,046	$107,669	$1,377	1 %

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

(2) Excluded from the table above are loans held for sale totaling $707 million and $625 million as of June 30, 2017 and December 31, 2016, respectively.

(3) Mortgage loans serviced for others by our subsidiaries are not included above, and amounted to $17.6 billion and $17.3 billion at June 30, 2017 and December 31, 2016, respectively.

Total loans and leases of $109.0 billion as of June 30, 2017 increased $1.4 billion from $107.7 billion as of December 31, 2016, reflecting growth in both commercial and retail products. Total commercial loans and leases of $51.9 billion increased $237 million from $51.7 billion as of December 31, 2016, reflecting commercial real estate loan growth of $589 million and commercial loan growth of $55 million, partially offset by a decline in leases. The change in commercial loans also reflects the impact of the second quarter 2017 sale of $596 million of lower-return, non-strategic commercial loans and leases associated with balance sheet optimization initiatives. Total retail loans of $57.2 billion increased by $1.1 billion from $56.0 billion as of December 31, 2016, largely driven by a $1.1 billion increase in education loans and a $967 million increase in residential mortgage loans, partially offset by lower home equity balances and auto loans.

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

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

(in millions)	June 30, 2017	December 31, 2016	Change	Percent
Commercial	$74	$144	($70)	(49 %)
Commercial real estate	36	59	(23)	(39)
Leases	778	874	(96)	(11)
Total commercial	888	1,077	(189)	(18)
Residential mortgages	158	173	(15)	(9)
Home equity loans	33	45	(12)	(27)
Home equity lines of credit	39	50	(11)	(22)
Home equity loans serviced by others	647	750	(103)	(14)
Home equity lines of credit serviced by others	182	219	(37)	(17)
Education	272	291	(19)	(7)
Total retail	1,331	1,528	(197)	(13)
Total non-core loans	2,219	2,605	(386)	(15)
Other assets	133	155	(22)	(14)
Total non-core assets	$2,352	$2,760	($408)	(15 %)

Non-core assets are primarily liquidating loan and lease portfolios inconsistent with our strategic priorities, generally as a result of geographic location, industry, product type or risk level and are included in Other. Non-core assets of $2.4 billion as of June 30, 2017 decreased $408 million, or 15%, from December 31, 2016.

Retail non-core loan balances of $1.3 billion decreased $197 million, or 13%, compared to December 31, 2016. The largest component of our retail non-core portfolio is the home equity SBO portfolio, which totaled $829 million as of June 30, 2017, compared to $969 million as of December 31, 2016. The SBO portfolio represented less than 3% of the retail real estate secured portfolio and approximately 1% of the overall retail loan portfolio as of June 30, 2017. The SBO portfolio consists of pools of home equity loans and lines of credit purchased between 2003 and 2007. Although our SBO portfolio consists of loans that were initially serviced by others, we now service a portion of this portfolio internally. SBO balances serviced externally totaled $435 million and $505 million as of June 30, 2017 and December 31, 2016, respectively.

The credit profile of the SBO portfolio reflected a weighted-average refreshed FICO score of 710 and CLTV of 85% as of June 30, 2017. The proportion of the portfolio in a second lien position was 97% with 70% of the portfolio in out-of-footprint geographies. SBO net charge-offs were in a net recovery position of $2 million, a decrease of $9 million compared to the three months ended June 30, 2016, driven by portfolio seasoning and balance liquidation. SBO net charge-offs were zero for the six months ended June 30, 2017, which was a decrease of $14 million compared to the six months ended June 30, 2016, driven by continued portfolio seasoning, recoveries from aged charge-offs, and balance liquidation.

Commercial non-core loan and lease balances of $888 million decreased $189 million, or 18%, from $1.1 billion as of December 31, 2016. The largest component of our commercial non-core portfolio is an aircraft-related loan and lease portfolio tied to legacy-Royal Bank of Scotland Group aircraft leasing borrowers, which totaled $780 million as of June 30, 2017 and $917 million as of December 31, 2016. During second quarter 2017, we recorded a $26 million pre-tax impairment write-down largely related to certain large-cabin aircraft lease assets primarily in the non-core portfolio.

Allowance for Credit Losses and Nonperforming Assets

The allowance for credit losses, which consists of an ALLL and a reserve for unfunded lending commitments, is created through charges to the provision for credit losses in order to provide appropriate reserves to absorb future estimated credit losses in accordance with GAAP. For further information on our processes to determine our allowance for credit losses, see “—Critical Accounting Estimates — Allowance for Credit Losses” and Note 1 “Significant Accounting Policies” to the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2016 and Note 4 “Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

The allowance for credit losses totaled $1.3 billion at June 30, 2017 and December 31, 2016. The ALLL represented 1.12% of total loans and leases and 119% of nonperforming loans and leases as of June 30, 2017 compared with 1.15% and 118%, respectively, as of December 31, 2016. The reserve for unfunded lending commitments increased $21 million from December 31, 2016 due to increased commitment volume and additional reserve requirements. 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.

Overall credit quality continued to improve, reflecting growth in higher quality, lower risk retail loans and broadly stable asset quality in commercial categories. Nonperforming loans and leases of $1.0 billion as of June 30, 2017 decreased $20 million from December 31, 2016 as a $47 million decrease in retail, largely real-estate secured categories, was partially offset by a $27 million increase in commercial, largely driven by an increase in commodities-related credits which was partially offset by decreases in commercial real estate. Net charge-offs of $162 million for the six months ended June 30, 2017 increased $14 million, or 9%, from $148 million for the six months ended June 30, 2016, reflecting an increase in commercial net charge-offs, largely driven by an increase in commodities-related credits. Annualized net charge-offs as a percentage of total average loans of 0.30% for the six months ended June 30, 2017 was stable compared to the six months ended June 30, 2016.

Commercial Loan Asset Quality

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

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

As of June 30, 2017, nonperforming commercial loans and leases increased $27 million to $414 million, compared to $387 million as of December 31, 2016, largely driven by an increase in commodities-related credits which was partially offset by decreases in commercial real estate. As of June 30, 2017, total commercial nonperforming loans were 0.8% of the commercial loan portfolio, compared to 0.7% as of December 31, 2016. Total commercial loan and lease portfolio net charge-offs of $14 million and $33 million for the three and six months ended June 30, 2017, compared to net charge-offs of $2 million and $11 million for the three and six months ended June 30, 2016. The commercial loan and lease portfolio annualized net charge-off rate of 10 and 13 basis points for the three and six months ended June 30, 2017, compared to one basis point and five basis points for the three and six months ended June 30, 2016.

Total commercial criticized loans and leases portfolio of $2.7 billion, or 5.3% of the portfolio, compared to $2.9 billion, or 5.6%, at December 31, 2016. Commercial criticized balances were $2.1 billion, or 5.5%, of commercial loans as of June 30, 2017, compared to $2.3 billion, or 6.1%, as of December 31, 2016. Commercial real estate criticized balances of $535 million, or 4.8% of the commercial real estate portfolio, compared to $478 million, or 4.5%, as of December 31, 2016. Commercial criticized loans to total criticized loans of 76% as of June 30, 2017 remained relatively stable compared to 78% as of December 31, 2016. Commercial real estate accounted for 20% of total criticized loans as of June 30, 2017, compared to 16% as of December 31, 2016.

Retail Loan Asset Quality

For retail loans, we primarily utilize payment and delinquency status to regularly review and monitor credit quality trends. Historical experience indicates that the longer a loan is past due, the greater the likelihood of future credit loss. The largest portion of the retail portfolio is represented by borrowers located in the New England, Mid-Atlantic and Midwest regions, although we have continued to grow selectively in areas outside the footprint primarily in the auto finance, education lending and unsecured portfolios. Retail loans of $57.2 billion increased $1.1 billion from December 31, 2016, driven by growth in unsecured retail loans, including merchant financed partnerships, education

finance loans, including education refinance, and residential mortgages.
The credit composition of our retail loan portfolio at June 30, 2017 reflected an average refreshed FICO score of 760, which was relatively flat compared to December 31, 2016. The real estate secured portfolio CLTV ratio is calculated as the mortgage and second lien loan balance divided by the most recently available value of the

property and was 61% as of June 30, 2017 and 62% as of December 31, 2016. Retail asset quality continued to improve with an annualized net charge-off rate of 0.44% and 0.47% for the three and six months ended June 30, 2017, respectively, compared to 0.48% and 0.51% for the three and six months ended June 30, 2016, respectively, driven by improving asset quality and a shift in the portfolio mix. Nonperforming retail loans as a percentage of total retail loans were 1.07% as of June 30, 2017, a decrease of ten basis points from December 31, 2016.

HELOC Payment Shock

We monitor the potential for increased exposure to credit losses associated with HELOCs that were originated during the period of rapid home price appreciation between 2003 and 2007. Industry wide, many of the HELOCs originated during this timeframe were structured with an extended interest-only payment period followed by a requirement to convert to a higher payment amount that would begin fully amortizing both principal and interest beginning at a certain date in the future. To help manage this potential exposure, in September 2013, we launched a comprehensive program designed to provide heightened customer outreach to inform, educate and assist customers through the reset process as well as to offer alternative financing and forbearance options. Results of this program indicate that our efforts to assist customers at risk of default have successfully reduced delinquency and charge-off rates compared to our original expectations.

As of June 30, 2017, for the $1.7 billion of our HELOC portfolio that reached the end of the interest-only draw period and entered repayment of principal and interest during 2014 and 2015, 94% of the balances had been refinanced, paid off or were current on payments, 3% were past due and 3% had been charged off. As of June 30, 2017, for the $738 million of our HELOC portfolio that reached the end of the interest-only draw period and entered repayment of principal and interest in 2016, 95% of the balances had been refinanced, paid off or were current on payments, 4% were past due and 1% had been charged off.

As of June 30, 2017, a total of $615 million of HELOC balances are scheduled to reach the end of the interest-only draw period and enter repayment of principal and interest for the remainder of 2017. For the $4.3 billion HELOC portfolio scheduled to reach the end of the interest-only draw period and enter repayment of principal and interest between July 1, 2017 and December 31, 2021, 46% was secured by a first lien, with a weighted average FICO score of the borrowers of 763 and a LTV ratio of 59%. Those results compare to the total HELOC portfolio of $13.9 billion that was 51% secured by a first lien, with a weighted average FICO score of the borrowers of 768 and a LTV ratio of 60%. Factors that affect our future expectations for continued relatively low charge-off risk in the face of rising interest rates for the portion of our HELOC portfolio subject to reset in future periods include a relatively high level of first lien collateral positions, improved loan-to-value ratios resulting from continued home price appreciation, relatively stable portfolio credit score profiles and continued robust loss mitigation efforts.

Troubled Debt Restructurings

TDR is the classification given to a loan that has been restructured in a manner that grants a concession to a borrower experiencing financial hardship that we would not otherwise make. TDRs typically result from our loss mitigation efforts and are undertaken in order to improve the likelihood of recovery and continuity of the relationship. Our loan modifications are handled on a case by case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet our borrower's financial needs. The types of concessions include interest rate reductions, term extensions, principal forgiveness and other modifications to the structure of the loan that fall outside our lending policy. Depending on the specific facts and circumstances of the customer, restructuring can involve loans moving to nonaccrual, remaining on nonaccrual, or remaining on accrual status.

As of June 30, 2017, $804 million of retail loans were classified as retail TDRs, a stable trend compared with $799 million as of December 31, 2016. As of June 30, 2017, $225 million of retail TDRs were in nonaccrual status with 58% current with payments, a slight improvement compared to $233 million in nonaccrual status with 55% current on payments at December 31, 2016. TDRs generally return to accrual status once repayment capacity and appropriate payment history can be established. TDRs are individually evaluated for impairment. Loans are classified as TDRs until paid off, sold or refinanced at market terms.

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

For additional information regarding TDRs, see "—Critical Accounting Estimates — Allowance for Credit Losses," and Note 1 "Significant Accounting Policies" to the audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2016 and Note 4 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.
The following tables present an aging of our retail TDRs:

	June 30, 2017				
(in millions)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Recorded Investment:					
Residential mortgages	$141	$3	$4	$40	$188
Home equity loans	116	3	2	19	140
Home equity lines of credit	179	4	3	24	210
Home equity loans serviced by others	49	1	1	3	54
Home equity lines of credit serviced by others	7	—	—	2	9
Automobile	19	2	1	—	22
Education	141	3	1	1	146
Credit cards	22	1	1	1	25
Other retail	10	—	—	—	10
Total	$684	$17	$13	$90	$804

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

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

	June 30, 2017		
(in millions)	Accruing	Nonaccruing	Total
Recorded Investment:			
Residential mortgages	$129	$59	$188
Home equity loans	102	38	140
Home equity lines of credit	135	75	210
Home equity loans serviced by others	40	14	54

Home equity lines of credit serviced by others	4	5	9
Automobile	12	10	22
Education	122	24	146
Credit cards	25	—	25
Other retail	10	—	10
Total	$579	$225	$804

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

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

Derivatives

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

We use receive-fixed swaps to minimize the exposure to variability in the interest cash flows on our floating-rate assets, and to hedge market risk on fixed-rate capital markets debt issuances. At June 30, 2017 and December 31, 2016, the notional amount of receive-fixed swap hedges totaled $12.8 billion and $10.4 billion, respectively. As of June 30, 2017 and December 31, 2016, the fixed-rate ranges were 0.88% to 1.87% and 0.88% to 1.84%, respectively. We paid one-month and three-month LIBOR on these swaps.

In second quarter 2017, we hedged $1.8 billion of floating-rate commercial loans with a three-year receive-fixed interest rate swaps in CBPA to hedge exposure to declining interest rates. An offsetting $1.5 billion of receive-fixed swaps hedging floating-rate commercial loans were terminated in CBNA. Our new hedges and terminations amounted to adding $250 million in three-year receive-fixed exposure. We also established a $500 million fair value hedge using a receive-fixed interest rate swap against the $500 million five-year fixed-rate senior debt, related to CBNA's $1.5 billion senior note issuance in May 2017.

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

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

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

(in millions)	June 30, 2017 Notional Amount[1]	June 30, 2017 Derivative Assets[2]	June 30, 2017 Derivative Liabilities[2]	December 31, 2016 Notional Amount[1]	December 31, 2016 Derivative Assets	December 31, 2016 Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate contracts	$16,800	$4	$3	$13,350	$52	$193
Derivatives not designated as hedging instruments:						
Interest rate contracts	65,980	337	274	54,656	557	452
Foreign exchange contracts	10,120	132	121	8,039	134	126
Other contracts	1,380	11	5	1,498	16	7
Total derivatives not designated as hedging instruments		480	400		707	585
Gross derivative fair values		484	403		759	778
Less: Gross amounts offset in the Consolidated Balance Sheets [3]		(70)	(70)		(106)	(106)
Less: Cash collateral applied [3]		(6)	(174)		(26)	(13)
Total net derivative fair values presented in the Consolidated Balance Sheets		$408	$159		$627	$659

[1] The notional or contractual amount of interest rate derivatives and foreign exchange contracts is the amount upon which interest and other payments under the contract are based. For interest rate derivatives, the notional amount is typically not exchanged. Therefore, notional amounts should not be taken as the measure of credit or market risk as they do not measure the true economic risk of these contracts.
[2] Amounts reflect variation margin payments that are characterized as settlement per the rules of our central counterparties that became effective January 3, 2017.
[3] Amounts represent the impact of legally enforceable master netting agreements that allow us to settle positive and negative positions.

At June 30, 2017, the overall derivative asset value decreased $219 million and the liability balance decreased by $500 million from December 31, 2016. These decreases were primarily due to a change in the presentation of variation margin payments in the Consolidated Balance Sheets in 2017. Effective January 3, 2017, the London Clearing House and Chicago Mercantile Exchange amended their respective rules to legally characterize the variation margin payments on centrally cleared derivative contracts as settlement of those derivatives (rather than the posting of collateral). As a result of this change, we modified our balance sheet presentation of centrally cleared interest rate swaps in 2017, such that the fair value of the swaps and the associated variation margin balances are reported as a single unit of account in derivative assets and/or derivative liabilities. At December 31, 2016, the variation margin balances were characterized as collateral and reported in interest-bearing cash and due from banks on the Consolidated Balance Sheets.

Deposits

The table below presents the major components of our deposits:

(in millions)	June 30, 2017	December 31, 2016	Change	Percent
Demand	$27,814	$28,472	($658)	(2%)
Checking with interest	22,497	20,714	1,783	9
Regular savings	9,542	8,964	578	6
Money market accounts	38,275	38,176	99	—
Term deposits	15,485	13,478	2,007	15

Total deposits	$113,613	$109,804	$3,809	3 %

Total deposits as of June 30, 2017 increased $3.8 billion, or 3%, to $113.6 billion, compared to $109.8 billion as of December 31, 2016, as growth across term deposits, checking with interest, regular savings and money market products was partially offset by a decrease in demand deposits.

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

Borrowed Funds

Short-term borrowed funds

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

(in millions)	June 30, 2017	December 31, 2016	Change	Percent
Federal funds purchased	$—	$533	($533)	(100%)
Securities sold under agreements to repurchase	429	615	(186)	(30)
Other short-term borrowed funds (primarily current portion of FHLB advances)	2,004	3,211	(1,207)	(38)
Total short-term borrowed funds	$2,433	$4,359	($1,926)	(44%)

Short-term borrowed funds of $2.4 billion decreased $1.9 billion from December 31, 2016, reflecting a $1.2 billion decline in other short-term borrowed funds (primarily short-term FHLB advances), a $533 million decrease in Fed funds purchased, and a $186 million decrease in securities sold under agreements to repurchase.

As of June 30, 2017, our total contingent liquidity was $28.3 billion, consisting of $3.3 billion in net cash at the FRB (which is defined as cash less overnight Fed funds purchased), $18.5 billion in unencumbered high-quality and liquid securities, and $6.5 billion in unused FHLB borrowing capacity. Asset liquidity, a component of contingent liquidity, consisting of net cash at the FRB and unencumbered high-quality liquid securities assets, was $21.8 billion. Additionally, $12.5 billion in secured discount window capacity from the FRBs created total available liquidity of approximately $40.8 billion.

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

	As of and for the Three Months Ended June 30,		As of and for the Six Months Ended June 30,		As of and for the Year Ended December 31,
(dollars in millions)	2017	2016	2017	2016	2016
Weighted-average interest rate at period-end:(1)					
Federal funds purchased and securities sold under agreements to repurchase	—%	—%	—%	—%	0.26%
Other short-term borrowed funds (primarily current portion of FHLB advances)	1.31	0.65	1.31	0.65	0.94
Maximum amount outstanding at month-end during the period:					
Federal funds purchased and securities sold under agreements to repurchase(2)	$1,075	$968	$1,174	$1,274	$1,522
Other short-term borrowed funds (primarily current portion of FHLB advances)	2,507	4,764	3,508	4,764	5,461
Average amount outstanding during the period:					
Federal funds purchased and securities sold under agreements to repurchase(2)	$808	$974	$845	$927	$947
Other short-term borrowed funds (primarily current portion of FHLB advances)	2,275	3,743	2,617	3,421	3,207
Weighted-average interest rate during the period:(1)					
Federal funds purchased and securities sold under agreements to repurchase	0.36%	0.08%	0.28%	0.07%	0.09%
Other short-term borrowed funds (primarily current portion of FHLB advances)	1.22	0.61	1.14	0.60	0.64

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

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

Long-term borrowed funds

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

(in millions)	June 30, 2017	December 31, 2016
Citizens Financial Group, Inc.:		
4.150% fixed-rate subordinated debt, due 2022	$347	$347
5.158% fixed-to-floating rate subordinated debt, due 2023, converting to floating at 3-month LIBOR + 3.56% and callable beginning June 2018	333	333
3.750% fixed-rate subordinated debt, due 2024	250	250
4.023% fixed-rate subordinated debt, due 2024	42	42
4.350% fixed-rate subordinated debt, due 2025	249	249
4.300% fixed-rate subordinated debt, due 2025	749	749
2.375% fixed-rate senior unsecured debt, due 2021	348	348
Banking Subsidiaries:		
2.300% senior unsecured notes, due 2018	746	745
2.450% senior unsecured notes, due 2019	748	747
2.500% senior unsecured notes, due 2019	743	741
2.250% senior unsecured notes, due 2020	698	—
Floating-rate senior unsecured notes, due 2020	299	—
Floating-rate senior unsecured notes, due 2020	249	—
2.200% senior unsecured notes, due 2020	498	—
2.550% senior unsecured notes, due 2021	973	965

Floating-rate senior unsecured notes, due 2022	249		—	
2.650% senior unsecured notes, due 2022	497		—	
Federal Home Loan advances due through 2033	5,112		7,264	
Other	24		10	
Total long-term borrowed funds		$13,154		$12,790

Note: The balances above reflect the impact of unamortized deferred issuance costs and discounts. See Note 7 “Borrowed Funds” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

From an external issuance perspective, on February 24, 2017, we increased the size of CBNA’s Global Note Program from $5.0 billion to $8.0 billion. On March 2, 2017, CBNA issued $1.0 billion in three-year, senior bank debt, composed of $700 million in fixed-rate notes and $300 million in floating-rate notes indexed to 3-month LIBOR. On May 26, 2017, CBNA issued $1.5 billion in senior notes, consisting of $500 million of three-year fixed-rate notes, $250 million of three-year floating-rate notes, $500 million in five-year fixed-rate notes, and $250 million in five-year floating-rate notes. We also established a $500 million fair value hedge using a receive-fixed interest rate swap against the $500 million five-year fixed-rate senior debt, related to CBNA’s $1.5 billion senior note issuance in May 2017. Long-term borrowed funds of $13.2 billion as of June 30, 2017 increased $364 million from December 31, 2016, reflecting a $2.5 billion increase in the aforementioned senior bank debt, offset by a decrease of $2.2 billion in long-term FHLB borrowings. Access to additional funding through repurchase agreements, collateralized borrowed funds or asset sales continues to be available. Additionally, capacity remains to grow deposits or issue senior or subordinated notes.

CAPITAL AND REGULATORY MATTERS

As a bank holding company and a financial holding company, we are subject to regulation and supervision by the FRB. Our primary subsidiaries are our two insured depository institutions, CBNA, a national banking association whose primary federal regulator is the OCC, and CBPA, a Pennsylvania-charted savings bank regulated by the Department of Banking of the Commonwealth of Pennsylvania and supervised by the FDIC as its primary federal regulator. Our regulation and supervision continues to evolve as the legal and regulatory framework governing our operations continues to change. The current operating environment reflects heightened regulatory expectations around many regulations including consumer compliance, the Bank Secrecy Act, anti-money laundering compliance, and increased internal audit activities. For more information, see “Regulation and Supervision” in Part I, Item 1 — Business included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Dodd-Frank regulation

Under the Dodd-Frank requirements, we must submit our annual capital plan and the results of our annual company-run stress tests to the FRB by April 5th of each year and disclose certain results within 15 days after the FRB discloses the results of its supervisory-run tests. On April 5, 2017, we submitted our 2017 Capital Plan and the results of the company-run stress tests to the FRB as part of the 2017 CCAR cycle. On June 28, 2017, the FRB did not object to our 2017 Capital Plan or to our proposed capital actions in the period beginning July 1, 2017 and ending June 30, 2018. Our 2017 Capital Plan includes proposed quarterly common dividends of $0.18 per share through the end of 2017 and $0.22 per share in 2018, and also includes a share repurchase plan of up to $850 million through second quarter 2018. The timing and exact amount of future dividends and share repurchases will depend on various factors, including capital position, financial performance and market conditions. On June 22, 2017, we published estimated DFAST results under the supervisory severely adverse scenario on our regulatory filings and disclosures page on http://investor.citizensbank.com.

The Dodd-Frank Act also requires each of our bank subsidiaries to conduct stress tests on an annual basis and to disclose the stress test results. CBNA submitted its 2017 annual stress tests to the OCC on April 5, 2017 and published a summary of those results along with the stress test results of the bank holding company parent on June 22, 2017. CBPA submitted the results of its 2017 annual stress tests to the FDIC on July 31, 2017 and will publish its summary results as an update to the Parent Company/CBNA Dodd-Frank Act Company-Run Stress Test Disclosure on our Investor Relations site between October 15 and October 31, 2017, as required by the FDIC for banks with $10 to $50 billion in total assets.

Capital Framework

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

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

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

	Transitional Basel III						Pro Forma Basel III Assuming Full Phase-in				
(dollars in millions)	Actual Amount	Actual Ratio	Required Minimum plus Required CCB for Non-Leverage Ratios(6)(7)		FDIA Required Well-Capitalized Minimum for Purposes of Prompt Corrective Action(9)		Actual Ratio(1)	Required Minimum plus Required CCB for Non-Leverage Ratios(6)(8)		FDIA Required Well-Capitalized Minimum for Purposes of Prompt Corrective Action(9)	
June 30, 2017											
Common equity tier 1 capital(2)	$14,057	11.2%	5.8	%	6.5	%	11.2%	7.0	%	6.5	%
Tier 1 capital(3)	14,304	11.4	7.3		8.0		11.4	8.5		8.0	
Total capital(4)	17,586	14.0	9.3		10.0		14.0	10.5		10.0	
Tier 1 leverage(5)	14,304	9.9	4.0		5.0		9.9	4.0		5.0	
Risk-weighted assets	125,774										
Quarterly adjusted average assets	144,404										
December 31, 2016											
Common equity tier 1 capital(2)	$13,822	11.2%	5.1	%	6.5	%	11.1%	7.0	%	6.5	%
Tier 1 capital(3)	14,069	11.4	6.6		8.0		11.3	8.5		8.0	
Total capital(4)	17,347	14.0	8.6		10.0		14.0	10.5		10.0	
Tier 1 leverage(5)	14,069	9.9	4.0		5.0		9.9	4.0		5.0	
Risk-weighted assets	123,857										
Quarterly adjusted average assets	141,677										

(1) Fully phased-in regulatory capital ratios are Key Performance Metrics. For more information on Key Performance Metrics, see "—Principal Components of Operations and Key Performance Metrics Used By Management."
(2) "Common equity tier 1 capital ratio" is CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
(3) "Tier 1 capital ratio" is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
(4) "Total capital ratio" is total capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
(5) "Tier 1 leverage ratio" is tier 1 capital divided by quarterly average total assets as defined under U.S. Basel III Standardized approach.
(6) Required "Minimum Capital ratio" for 2016 and 2017 are: Common equity tier 1 capital of 4.5%; Tier 1 capital of 6.0%; Total capital of 8.0%; and Tier 1 leverage of 4.0%.
(7) "Minimum Capital ratio" includes capital conservation buffer for Transitional Basel III of 1.250% for 2017 and 0.625 for 2016; N/A to Tier 1 leverage.
(8) "Minimum Capital ratio" for 2016 and 2017 includes capital conservation buffer for Pro Forma Basel III of 2.5%; N/A to Tier 1 leverage.
(9) Presented for informational purposes. Prompt corrective action provisions apply only to insured depository institutions - CBNA and CBPA.

At June 30, 2017, our CET1 capital, tier 1 capital and total capital ratios were 11.2%, 11.4% and 14.0%, respectively, consistent with 11.2%, 11.4% and 14.0%, respectively, as of December 31, 2016. These capital ratios remained unchanged as net income for the six months ended June 30, 2017 was offset by risk-weighted asset growth and our 2016 Capital Plan actions over the period, which included common dividends of $143 million, preferred dividends of $7 million and the repurchase of $260 million of our outstanding common stock. At June 30, 2017, our CET1 capital, tier 1 capital and total capital ratios were 4.2%, 2.9% and 3.5%, respectively, above their regulatory minimums plus the fully phased-in capital conservation buffer. Based on both current and fully phased-in Basel III requirements, all ratios remained well above Basel III minima.

Standardized Approach

CFG, CBNA and CBPA calculate regulatory ratios using the U.S. Basel III Standardized approach, as defined by U.S. Federal bank regulators, for determining risk-weighted assets. The U.S. Basel III Standardized approach for risk weighting assets expands the risk-weighting categories from the four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset classes. Under this approach, no distinction is made for variations in credit quality for corporate exposures. Additionally, the economic benefit of collateral is restricted to a limited list of eligible securities and cash. At June 30, 2017, we estimate our CET1 capital, CET1 capital ratio and total risk-weighted assets using the U.S. Basel III Standardized approach, on a fully phased-in basis, to be $14.1 billion, 11.2% and $126.0 billion, respectively. Our estimates may be refined over time because of further rulemaking or clarification by U.S. banking regulators or as our understanding and interpretation of these rules evolve.

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

(dollars in millions)	June 30, 2017	December 31, 2016
Common equity tier 1 capital	$14,057	$13,822
Impact of intangibles at 100%	—	—
Fully phased-in common equity tier 1 capital[1]	$14,057	$13,822
Total capital	$17,586	$17,347
Impact of intangibles at 100%	—	—
Fully phased-in total capital[1]	$17,586	$17,347
Risk-weighted assets	$125,774	$123,857
Impact of intangibles - 100% capital deduction	—	—
Impact of mortgage servicing assets at 250% risk weight	249	244
Fully phased-in risk-weighted assets[1]	$126,023	$124,101
Transitional common equity tier 1 capital ratio[2]	11.2 %	11.2 %
Fully phased-in common equity tier 1 capital ratio[1][2]	11.2	11.1
Transitional total capital ratio[3]	14.0	14.0
Fully phased-in total capital ratio[1][3]	14.0	14.0

[1] Fully phased-in regulatory capital ratios are Key Performance Metrics. For more information on Key Performance Metrics, see "—Principal Components of Operations and Key Performance Metrics Used By Management."
[2] "Common equity tier 1 capital ratio" is CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
[3] "Total capital ratio" is total capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

Regulatory Capital Ratios and Capital Composition

CET1 capital under U.S. Basel III Standardized Transitional rules totaled $14.1 billion at June 30, 2017, and increased $235 million from $13.8 billion at December 31, 2016, as net income for the six months ended June 30, 2017 was partially offset by the impact of common share repurchases and dividend payments over the period. Tier 1 capital at June 30, 2017 totaled $14.3 billion, reflecting a $235 million increase from $14.1 billion at December 31, 2016, driven by the changes in CET1 capital noted above. At June 30, 2017, we had $247 million of 5.500% Fixed-to-Floating Non-Cumulative Perpetual Preferred Stock outstanding which qualified as additional tier 1 capital. Total capital of $17.6 billion at June 30, 2017, increased $239 million from December 31, 2016, as net income for the six months ended June 30, 2017 and a small increase in the allowance for credit losses were partially offset by the impact of common share repurchases and dividend payments over the period.

Risk-weighted assets ("RWA") totaled $125.8 billion at June 30, 2017, based on U.S. Basel III Standardized Transitional rules, up $1.9 billion from December 31, 2016. This increase was driven by growth in retail loans, including education and residential mortgage, as well as commercial real estate loan RWA. Included within the commercial real estate loan RWA increase was approximately $700 million which was tied to a change in the RWA designation for certain commercial real estate loans in first quarter 2017. These increases were partially offset by the RWA impact of commercial loan sales, run-off in the auto portfolio and a reduction in market risk, as we did not meet the reporting threshold prescribed by Market Risk Capital Guidelines for the second quarter 2017. The tier 1 leverage ratio remained stable from December 31, 2016 to June 30, 2017.

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

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

	Transitional Basel III	
(in millions)	June 30, 2017	December 31, 2016
Total common stockholders' equity	$19,817	$19,499
Exclusions[1]:		
Net unrealized losses recorded in accumulated other comprehensive income, net of tax:		
Debt and marketable equity securities available for sale	129	186
Derivatives	76	88
Unamortized net periodic benefit costs	389	394
Deductions:		
Goodwill	(6,887)	(6,876)
Deferred tax liability associated with goodwill	535	532
Other intangible assets	(2)	(1)
Total common equity tier 1	14,057	13,822
Qualifying preferred stock	247	