

CITIZENS FINANCIAL GROUP INC/RI
Form 10-Q
November 07, 2018

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

For the Quarterly Period Ended
September 30, 2018

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

For the Transition Period From
(Not Applicable)
Commission File Number 001-36636
(Exact name of the registrant as specified in its charter)
Delaware 05-0412693
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification Number)
One Citizens Plaza, Providence, RI 02903
(Address of principal executive offices, including zip code)
(401) 456-7000
(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

There were 467,912,054 shares of Registrant's common stock (\$0.01 par value) outstanding on November 1, 2018.

Table of Contents

<u>Glossary of Acronyms and Terms</u>	3
<u>Part I. Financial Information</u>	5
<u>Item 1. Financial Statements</u>	54
<u>Consolidated Balance Sheets as of September 30, 2018 (unaudited) and December 31, 2017 (unaudited)</u>	55
<u>Consolidated Statements of Operations (unaudited) for the Three and Nine Months Ended September 30, 2018 and 2017</u>	56
<u>Consolidated Statements of Comprehensive Income (unaudited) for the Three and Nine Months Ended September 30, 2018 and 2017</u>	57
<u>Consolidated Statements of Changes in Stockholders' Equity (unaudited) for the Nine Months Ended September 30, 2018 and 2017</u>	58
<u>Consolidated Statements of Cash Flows (unaudited)</u>	59

<u>for the Nine Months Ended September 30, 2018 and 2017 Notes to the Consolidated Financial Statements (unaudited)</u>	<u>60</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>5</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>109</u>
<u>Item 4. Controls and Procedures</u>	<u>109</u>
<u>Part II. Other Information</u>	<u>110</u>
<u>Item 1. Legal Proceedings</u>	<u>110</u>
<u>Item 1A. Risk Factors</u>	<u>110</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>110</u>
<u>Item 6. Exhibits</u>	<u>110</u>
<u>Signature</u>	<u>112</u>

CITIZENS FINANCIAL GROUP, INC.

GLOSSARY OF ACRONYMS AND TERMS

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

ACL	Allowance for Credit Losses
AFS	Available for Sale
ALLL	Allowance for Loan and Lease Losses
AOCI	Accumulated Other Comprehensive Income (Loss)
ATM	Automated Teller Machine
Board of Directors	The Board of Directors of Citizens Financial Group, Inc.
bps	Basis Points
Capital Plan Rule	Federal Reserve's Regulation Y Capital Plan Rule
CBNA	Citizens Bank, National Association
CBPA	Citizens Bank of Pennsylvania
CCAR	Comprehensive Capital Analysis and Review
CCB	Capital Conservation Buffer
CET1	Common Equity Tier 1
Citizens or CFG or the Company	Citizens Financial Group, Inc. and its Subsidiaries
CLTV	Combined Loan to Value
CMO	Collateralized Mortgage Obligation
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
FAMC	Franklin American Mortgage Company
FAMC acquisition	The August 1, 2018 acquisition of Franklin American Mortgage Company
Fannie Mae (FNMA)	Federal National Mortgage Association
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation (credit rating)
FRB	Board of Governors of the Federal Reserve System and, as applicable, Federal Reserve Bank(s)
Freddie Mac (FHLMC)	Federal Home Loan Mortgage Corporation
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
LIBOR	London Interbank Offered Rate
LIHTC	Low Income Housing Tax Credit
LTV	Loan to Value
MBS	Mortgage-Backed Securities
Mid-Atlantic	District of Columbia, Delaware, Maryland, New Jersey, New York, Pennsylvania, Virginia, and West Virginia
Midwest	Illinois, Indiana, Michigan, and Ohio

MD&A

Management's Discussion and Analysis of Financial Condition and Results of Operations

MSRs

Mortgage Servicing Rights

New England

Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont

3

CITIZENS FINANCIAL GROUP, INC.

NM	Not meaningful
NSFR	Net Stable Funding Ratio
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income (Loss)
Parent Company	Citizens Financial Group, Inc. (the Parent Company of Citizens Bank of Pennsylvania, Citizens Bank, National Association and other subsidiaries)
ROTCE	Return on Average Tangible Common Equity
RPA	Risk Participation Agreement
SBO	Serviced by Others 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	<u>6</u>
<u>Introduction</u>	<u>7</u>
<u>Financial Performance</u>	<u>9</u>
Selected Consolidated Financial Data	<u>12</u>
Results of Operations	<u>14</u>
<u>Net Income</u>	<u>14</u>
<u>Net Interest Income</u>	<u>14</u>
<u>Noninterest Income</u>	<u>18</u>
<u>Provision for Credit Losses</u>	<u>19</u>
<u>Noninterest Expense</u>	<u>19</u>
<u>Income Tax Expense</u>	<u>19</u>
<u>Business Operating Segments</u>	<u>20</u>
Analysis of Financial Condition	<u>27</u>
<u>Securities</u>	<u>27</u>
<u>Loans and Leases</u>	<u>28</u>
<u>Allowance for Credit Losses and Nonperforming Assets</u>	<u>28</u>
<u>Deposits</u>	<u>33</u>
<u>Borrowed Funds</u>	<u>33</u>
<u>Capital and Regulatory Matters</u>	<u>35</u>
<u>Liquidity</u>	<u>39</u>
<u>Off-Balance Sheet Arrangements</u>	<u>43</u>
<u>Critical Accounting Estimates</u>	<u>43</u>
<u>Risk Governance</u>	<u>44</u>
<u>Market Risk</u>	<u>44</u>
<u>Key Performance Metrics, Non-GAAP Financial Measures and Reconciliations</u>	<u>50</u>

CITIZENS FINANCIAL GROUP, INC.
FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS

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

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

Negative economic and political 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, and changes in the competitive environment;

Our ability to implement our business strategy, including the cost savings and efficiency components, and achieve our financial performance goals;

Our ability to meet heightened 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 repurchase shares or pay any dividends to holders of our common stock, or as to the amount of any such repurchases or dividends.

More information about factors that could cause actual results to differ materially from those described in the forward-looking statements can be found in the “Risk Factors” section in Part I, Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2017.

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 \$158.6 billion in assets as of September 30, 2018. 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 2,900 ATMs and approximately 1,150 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 unaudited interim Consolidated Financial Statements and supplemental financial information. It should be read in conjunction with the unaudited interim Consolidated Financial Statements and Notes to the unaudited interim Consolidated Financial Statements in Item 1 of this Form 10-Q, as well as other information contained in this document and our Annual Report on Form 10-K for the year ended December 31, 2017.

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

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.

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, which represents CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

This document contains non-GAAP financial measures denoted as “Underlying” results. “Underlying” results for any given reporting period exclude certain items that may occur in that period which Management does not

7

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

consider indicative of the Company's on-going financial performance. We believe these non-GAAP financial measures provide useful information to investors because they are used by our Management to evaluate our operating performance and make day-to-day operating decisions. In addition, we believe our "Underlying" results in any given reporting period reflect our on-going financial performance in that period and, accordingly, are useful to consider in addition to our GAAP financial results. We further believe the presentation of "Underlying" results 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 such companies. We caution investors not to place undue reliance on such non-GAAP financial measures, but to consider them with the most directly comparable GAAP measures. Non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for our results reported under GAAP.

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 (*). For additional information regarding our non-GAAP financial measures and reconciliations, see "—Key Performance Metrics, Non-GAAP Financial Measures and Reconciliations," included in this report.

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

FINANCIAL PERFORMANCE

Third Quarter 2018 compared with Third Quarter 2017 - Key Highlights

Third quarter 2018 net income of \$443 million increased 27% from \$348 million in third quarter 2017, with earnings per diluted common share of \$0.91, up 34% from \$0.68 per diluted common share in third quarter 2017. Third quarter 2018 ROTCE of 13.3% improved from 10.1% in third quarter 2017.

There were \$7 million after-tax, or \$0.02 per diluted common share, of notable items recorded in third quarter 2018 tied to integration costs associated with the acquisition of Franklin American Mortgage Company ("FAMC"). There were no notable items recorded in third quarter 2017.

(in millions)	Three Months Ended September 30,					
	2018		2017			
	Noninterest expense	Income tax expense	Net Income	Noninterest expense	Income tax expense	Net Income
Reported results (GAAP)	\$910	\$133	\$443	\$858	\$165	\$348
Less notable items:						
FAMC integration costs	9	(2)	(7)	—	—	—
Underlying results* (non-GAAP)	\$901	\$135	\$450	\$858	\$165	\$348

* Where there is a reference to "Underlying" results in a paragraph, all measures that follow these references are on the same basis when applicable. For more information on the computation of key performance metrics and non-GAAP financial measures, see "—Introduction — Key Performance Metrics Used By Management and Non-GAAP Financial Measures" and "—Key Performance Metrics, Non-GAAP Financial Measures and Reconciliations."

Net income available to common stockholders of \$436 million increased \$95 million, or 28%, compared to \$341 million in third quarter 2017, driven by 8% revenue growth, with 8% growth in net interest income and 9% growth in noninterest income.

On an Underlying basis,* net income available to common stockholders increased \$102 million, or 30%, to \$443 million from third quarter 2017.

Total revenue of \$1.6 billion increased \$121 million, or 8%, from third quarter 2017, driven by strength in net interest income and noninterest income.

Net interest income of \$1.1 billion increased \$86 million, or 8%, compared to \$1.1 billion in third quarter 2017, driven by improvement in net interest margin and 4% average loan growth.

Net interest margin of 3.19% increased by 14 basis points, compared to 3.05% in third quarter 2017, reflecting higher interest-earning asset yields given higher rates and continued mix shift towards higher-yielding assets, partially offset by higher deposit and other funding costs. The 14 basis point increase included a 1 basis point reduction associated with FAMC.

Average loans and leases of \$114.0 billion increased \$4.5 billion, or 4%, from \$109.5 billion in third quarter 2017, reflecting a \$3.1 billion increase in commercial loans and leases and a \$1.4 billion increase in retail loans.

Average deposits of \$117.0 billion increased \$4.1 billion, or 4%, from \$112.9 billion in third quarter 2017, reflecting growth in term deposits, demand deposits and savings, partially offset by lower money market accounts and checking with interest.

Noninterest income of \$416 million increased \$35 million, or 9%, from third quarter 2017, driven by a \$24 million increase in mortgage banking fees related to FAMC.

Noninterest expense of \$910 million increased \$52 million, or 6%, compared to \$858 million in third quarter 2017, driven by \$25 million of FAMC costs, primarily related to salaries and employee benefits, and \$9 million of pre-tax FAMC integration costs, composed of \$5 million in salaries and employee benefits, \$3 million of other operating expense and \$1 million of outside services.

On an Underlying basis,* noninterest expense increased \$43 million, or 5%, from third quarter 2017, driven by \$25 million of FAMC costs, primarily related to salaries and employee benefits.

- Continued focus on top-line growth and expense management helped deliver positive operating leverage of 2.2% from third quarter 2017, and a 121 basis point improvement in the efficiency ratio to 58.2%.

9

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

On an Underlying basis,* operating leverage was 3.3% despite a 116 basis point reduction associated with the impact of FAMC, and the efficiency ratio improved 179 basis points to 57.6% from third quarter 2017, including a 67 basis point increase associated with the impact of FAMC.

ROTCE of 13.3% improved 316 basis points from 10.1% in third quarter 2017.

On an Underlying basis,* ROTCE improved 337 basis points to 13.5% in third quarter 2018.

Tangible book value per common share improved to \$27.66, up 2%, from third quarter 2017. Fully diluted average common shares outstanding decreased 5%, or 24.6 million shares over the same period.

Provision for credit losses of \$78 million increased \$6 million, or 8%, from \$72 million in third quarter 2017, reflecting higher commercial net charge-offs from third quarter 2017 levels that included higher recoveries, and higher retail net charge-offs tied to seasoning in unsecured products.

Net charge-offs of \$86 million increased \$21 million, or 32%, from \$65 million in third quarter 2017. The ALLL of \$1.2 billion increased \$6 million compared to December 31, 2017.

ALLL to total loans and leases of 1.08% as of September 30, 2018 compared with 1.12% as of December 31, 2017.

ALLL to nonperforming loans and leases ratio of 149% as of September 30, 2018, compared with 142% as of December 31, 2017.

The effective income tax rate decreased to 23.2% from 32.2% in third quarter 2017, primarily driven by the impact of December 2017 tax reform.

Nine Months Ended 2018 compared with Nine Months Ended 2017 - Key Highlights

Net income of \$1.3 billion increased 27% from \$986 million in the first nine months of 2017, with earnings per diluted common share of \$2.57, up 34% from \$1.92 per diluted common share over the first nine months of 2017.

ROTCE of 12.6% improved from 9.8% in the first nine months of 2017.

There were \$7 million after-tax, or \$0.01 per diluted common share, of notable items in the first nine months of 2018 tied to the FAMC integration costs. Notable items in the same period last year consisted of \$23 million in state tax settlement benefits, or \$0.05 per diluted common share, and \$26 million pre-tax impairments on aircraft lease assets, reducing noninterest income by \$11 million and increasing noninterest expense by \$15 million.

(in millions)	Nine Months Ended September 30, 2018					2017				
	Noninterest income	Noninterest expense	Credit-related costs	Income tax expense	Net Income	Noninterest income	Noninterest expense	Credit-related costs	Income tax expense	Net Income
Reported results (GAAP)	\$1,175	\$2,668	\$241	\$370	\$1,256	\$1,130	\$2,576	\$238	\$423	\$986
Less notable items:										
FAMC integration costs	—	9	—	(2)	(7)	—	—	—	—	—
Lease impairment credit-related costs	—	—	—	—	—	(11)	15	(26)	—	—
Settlement of certain state tax matters	—	—	—	—	—	—	—	—	(23)	23
Total Notable items	\$—	\$9	\$—	(\$2)	(\$7)	(\$11)	\$15	(\$26)	(\$23)	\$23
Underlying results* (non-GAAP)	\$1,175	\$2,659	\$241	\$372	\$1,263	\$1,141	\$2,561	\$264	\$446	\$963

* Where there is a reference to "Underlying" results in a paragraph, all measures that follow these references are on the same basis when applicable. For more information on the computation of key performance metrics and non-GAAP financial measures, see "—Introduction — Key Performance Metrics Used By Management and Non-GAAP Financial Measures" and "—Key Performance Metrics, Non-GAAP Financial Measures and Reconciliations."

Net income available to common stockholders of \$1.2 billion increased \$270 million, or 28%, compared to \$972 million in the first nine months of 2017.

On an Underlying basis,* net income available to common stockholders increased by 32%, led by 7% revenue growth with 9% growth in net interest income.

Total revenue of \$4.5 billion increased \$312 million, or 7%, from the first nine months of 2017, driven by strong net interest and noninterest income growth:

Net interest income of \$3.4 billion increased \$267 million, or 9%, compared to \$3.1 billion in the first nine months of 2017, driven by higher loan yields and 3% average loan growth.

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

Net interest margin of 3.18% increased 18 basis points from 3.00% in the first nine months of 2017, reflecting the benefit of higher interest rates and continued mix shift towards higher-yielding assets, partially offset by higher deposit and other funding costs.

Average loans and leases of \$112.7 billion increased \$3.8 billion, or 3%, from \$108.9 billion in the first nine months of 2017, reflecting a \$1.9 billion increase in commercial loans and leases and a \$1.8 billion increase in retail loans.

Average deposits of \$115.2 billion increased \$4.0 billion, or 4%, from \$111.2 billion in the first nine months of 2017, reflecting strength in term, checking with interest, savings and demand deposits.

Noninterest income of \$1.2 billion increased \$45 million, or 4%, from the first nine months of 2017, driven by strength in mortgage banking fees, including the \$24 million impact of FAMC, as well as foreign exchange and interest rate products, trust and investment services fees, card fees and letter of credit and loan fees, partially offset by lower capital market fees and service charges and fees.

On an Underlying basis,* noninterest income increased \$34 million from \$1.1 billion in the first nine months of 2017, excluding the \$11 million impact of 2017 aircraft finance lease impairments.

Noninterest expense of \$2.7 billion increased \$92 million, or 4% from \$2.6 billion in the first nine months of 2017, reflecting higher salaries and employee benefits driven by higher revenue-based incentives and merit increases, higher outside services expense, including continued investments to drive growth, \$25 million of FAMC costs, primarily in salaries and employee benefits, and \$9 million of FAMC integration costs. These increases were partially offset by lower other operating expense.

On an Underlying basis,* noninterest expense increased 4% from the first nine months of 2017, and excluded the \$9 million of FAMC integration costs and the \$15 million of 2017 aircraft operating lease impairments.

- Operating leverage improved to 3.8%, the efficiency ratio improved by 215 basis points to 58.8% compared to the first nine months of 2017, and ROTCE moved to 12.6%.

On an Underlying basis,* operating leverage was 3.2%, the efficiency ratio improved 183 basis points from 60.5% in the first nine months of 2017 and ROTCE increased 314 basis points from 9.6%.

Earnings per diluted common share increased \$0.65, or 34%, from the first nine months of 2017.

On an Underlying basis,* earnings per diluted common share increased \$0.71, or 38%, from the first nine months of 2017.

Tangible book value per common share improved 2% to \$27.66 from September 30, 2017. Fully diluted average common shares outstanding decreased by 22.8 million shares over the first nine months of 2018.

Provision for credit losses of \$241 million increased \$3 million, or 1%, from \$238 million for the first nine months of 2017.

On an Underlying basis,* total credit-related costs decreased \$23 million, or 9%, from \$264 million in the first nine months of 2017, driven primarily by the \$26 million impact of 2017 aircraft lease impairments.

Net charge-offs of \$232 million increased \$5 million, or 2%, from \$227 million in the first nine months of 2017. The ALLL of \$1.2 billion increased \$6 million compared to December 31, 2017.

ALLL to total loans and leases of 1.08% decreased from 1.12% as of December 31, 2017.

The ALLL to nonperforming loans and leases ratio of 149% increased from 142% as of December 31, 2017.

The effective income tax rate decreased to 22.8% from 30.0% in the first nine months of 2017, primarily driven by the impact of December 2017 tax reform, partially offset by the prior year settlement of certain state tax matters.

On an Underlying basis,* the effective income tax rate decreased to 22.8% from 31.7% in the first nine months of 2017, primarily due to the impact of December 2017 tax reform.

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

SELECTED CONSOLIDATED FINANCIAL DATA

The summary Consolidated Operating Data for the three and nine months ended September 30, 2018 and 2017 and the summary Consolidated Balance Sheet data as of September 30, 2018 and December 31, 2017 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions, except per-share amounts)	2018	2017	2018	2017
OPERATING DATA:				
Net interest income	\$1,148	\$1,062	\$3,360	\$3,093
Noninterest income	416	381	1,175	1,130
Total revenue	1,564	1,443	4,535	4,223
Provision for credit losses	78	72	241	238
Noninterest expense	910	858	2,668	2,576
Income before income tax expense	576	513	1,626	1,409
Income tax expense	133	165	370	423
Net income	\$443	\$348	\$1,256	\$986
Net income available to common stockholders	\$436	\$341	\$1,242	\$972
Net income per common share - basic	\$0.92	\$0.68	\$2.57	\$1.92
Net income per common share - diluted	\$0.91	\$0.68	\$2.57	\$1.92
OTHER OPERATING DATA:				
Return on average common equity	8.82	% 6.87	% 8.44	% 6.63
Return on average tangible common equity	13.29	10.13	12.64	9.80
Return on average total assets	1.13	0.92	1.09	0.88
Return on average total tangible assets	1.18	0.96	1.14	0.92
Efficiency ratio	58.20	59.41	58.84	60.99
Operating leverage	2.21	5.61	3.79	5.67
Net interest margin	3.19	3.05	3.18	3.00
Effective income tax rate	23.16	32.18	22.77	30.04

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

(dollars in millions)	September 30, 2018	December 31, 2017		
BALANCE SHEET DATA:				
Total assets	\$158,598	\$152,336		
Loans held for sale, at fair value	1,303	497		
Other loans held for sale	27	221		
Loans and leases	114,720	110,617		
Allowance for loan and lease losses	(1,242)	(1,236)		
Total securities	25,485	25,733		
Goodwill	6,946	6,887		
Total liabilities	138,322	132,066		
Total deposits	117,075	115,089		
Federal funds purchased and securities sold under agreements to repurchase	374	815		
Other short-term borrowed funds	2,006	1,856		
Long-term borrowed funds	15,639	11,765		
Total stockholders' equity	20,276	20,270		
OTHER BALANCE SHEET DATA:				
Asset Quality Ratios:				
Allowance for loan and lease losses as a percentage of total loans and leases	1.08	%	1.12	%
Allowance for loan and lease losses as a percentage of nonperforming loans and leases	149.29		141.96	
Nonperforming loans and leases as a percentage of total loans and leases	0.73		0.79	
Capital Ratios:				
CET1 capital ratio ⁽¹⁾	10.8	%	11.2	%
Tier 1 capital ratio ⁽²⁾	11.2		11.4	
Total capital ratio ⁽³⁾	13.4		13.9	
Tier 1 leverage ratio ⁽⁴⁾	9.9		10.0	

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

⁽²⁾ "Tier 1 capital ratio" is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital,

divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

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

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

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

RESULTS OF OPERATIONS

Net Income

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

(dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,				
	2018	2017	Change	Percent	2018	2017	Change	Percent	
Operating Data:									
Net interest income	\$1,148	\$1,062	\$86	8	% \$3,360	\$3,093	\$267	9	%
Noninterest income	416	381	35	9	1,175	1,130	45	4	
Total revenue	1,564	1,443	121	8	4,535	4,223	312	7	
Provision for credit losses	78	72	6	8	241	238	3	1	
Noninterest expense	910	858	52	6	2,668	2,576	92	4	
Income before income tax expense	576	513	63	12	1,626	1,409	217	15	
Income tax expense	133	165	(32)	(19)	370	423	(53)	(13)	
Net income	\$443	\$348	\$95	27	\$1,256	\$986	\$270	27	
Net income available to common stockholders	\$436	\$341	\$95	28	% \$1,242	\$972	\$270	28	%
Return on average common equity	8.82	% 6.87	% 195	bps	8.44	% 6.63	% 181	bps	
Return on average tangible common equity	13.29	% 10.13	% 316	bps	12.64	% 9.80	% 284	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 (generally loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (generally 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 “—Market Risk — Non-Trading Risk,” included in this report and “—Risk Governance” as described in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

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

(dollars in millions)	Three Months Ended September 30,						Change	
	2018			2017			Average	Yields/
	Average	Income/	Yields/	Average	Income/	Yields/	Average	Yields/
	Balances	Expense	Rates	Balances	Expense	Rates	Balances	Rates
Assets								
Interest-bearing cash and due from banks and deposits in banks	\$1,604	\$7	1.85 %	\$1,663	\$5	1.14 %	(\$59)	)71 bps
Taxable investment securities	25,225	167	2.65	25,588	155	2.42	(363)	)23
Non-taxable investment securities	6	—	2.60	7	—	2.60	(1))—
Total investment securities	25,231	167	2.65	25,595	155	2.42	(364)	)23
Commercial	39,592	419	4.14	37,448	344	3.61	2,144	53
Commercial real estate	12,656	147	4.56	11,401	108	3.69	1,255	87
Leases	3,028	21	2.74	3,302	21	2.54	(274)	)20
Total commercial loans and leases	55,276	587	4.16	52,151	473	3.56	3,125	60
Residential mortgages	18,147	164	3.62	16,323	146	3.57	1,824	5
Home equity loans	1,168	18	5.93	1,547	22	5.72	(379)	)21
Home equity lines of credit	12,925	152	4.66	13,608	135	3.93	(683)	)73
Home equity loans serviced by others	444	8	7.45	618	11	7.04	(174)	)41
Home equity lines of credit serviced by others	118	2	4.89	173	2	4.05	(55)	)84
Automobile	12,379	117	3.74	13,349	111	3.31	(970)	)43
Education	8,481	124	5.78	7,814	106	5.36	667	42
Credit cards	1,909	52	10.77	1,738	47	10.69	171	8
Other retail	3,124	63	8.10	2,163	43	7.88	961	22
Total retail loans	58,695	700	4.73	57,333	623	4.32	1,362	41
Total loans and leases	113,971	1,287	4.46	109,484	1,096	3.96	4,487	50
Loans held for sale, at fair value	1,228	14	4.49	503	5	3.69	725	80
Other loans held for sale	129	2	6.44	234	3	4.72	(105)	)172
Interest-earning assets	142,163	1,477	4.11	137,479	1,264	3.64	4,684	47
Allowance for loan and lease losses	(1,255)			(1,220)			(35))
Goodwill	6,926			6,887			39	
Other noninterest-earning assets	7,790			6,866			924	
Total assets	\$155,624			\$150,012			\$5,612	
Liabilities and Stockholders' Equity								
Checking with interest	\$21,780	\$36	0.67 %	\$21,909	\$23	0.43 %	(\$129)	)24 bps
Money market accounts	36,593	95	1.03	37,535	54	0.57	(942)	)46
Regular savings	10,198	3	0.12	9,491	1	0.04	707	8
Term deposits	18,764	80	1.68	15,971	45	1.09	2,793	59
Total interest-bearing deposits	87,335	214	0.98	84,906	123	0.58	2,429	40
Federal funds purchased and securities sold under agreements to repurchase ⁽¹⁾	643	2	0.93	733	1	0.50	(90)	)43
Other short-term borrowed funds	2,239	19	3.21	1,624	7	1.55	615	166
Long-term borrowed funds	12,793	94	2.94	12,210	71	2.31	583	63
Total borrowed funds	15,675	115	2.90	14,567	79	2.14	1,108	76
Total interest-bearing liabilities	103,010	329	1.27	99,473	202	0.80	3,537	47
Demand deposits	29,703			28,041			1,662	
Other liabilities	2,769			2,523			246	
Total liabilities	135,482			130,037			5,445	

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

Stockholders' equity	20,142			19,975			167
Total liabilities and stockholders' equity	\$155,624			\$150,012			\$5,612
Interest rate spread			2.84 %			2.84 %	—
Net interest income		\$1,148			\$1,062		
Net interest margin			3.19 %			3.05 %	14 bps
Memo: Total deposits (interest-bearing and demand)	\$117,038	\$214	0.73 %	\$112,947	\$123	0.43 %	\$4,091 30 bps

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

Net interest margin of 3.19% increased 14 basis points compared to 3.05% in third quarter 2017, driven by higher interest-earning asset yields given higher interest rates and continued mix shift towards higher-yielding assets, partially offset by higher deposit and other funding costs. The 14 basis points increase included a one basis point reduction associated with FAMC.

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

Average interest-earning asset yields of 4.11% increased 47 basis points from 3.64% in third quarter 2017, and average interest-bearing liability costs of 1.27% also increased 47 basis points from 0.80% in third quarter 2017. Average interest-earning assets of \$142.2 billion increased \$4.7 billion, or 3%, from third quarter 2017, driven by a \$3.1 billion increase in average commercial loans and leases and a \$1.4 billion increase in average retail loans, partially offset by a \$423 million decrease 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 residential mortgage, other retail, education and credit cards. Average deposits of \$117.0 billion increased \$4.1 billion from third quarter 2017, reflecting growth in term deposits, checking with interest, savings and demand deposits. Total interest-bearing deposit costs of \$214 million increased \$91 million, or 74%, from \$123 million in third quarter 2017, primarily due to the impact of rising rates and a shift in mix. Average total borrowed funds of \$15.7 billion increased \$1.1 billion from third quarter 2017, reflecting an increase in other short-term borrowed funds and long-term borrowed funds, partially offset by a decrease in federal funds purchased and repurchase agreements. Total borrowed funds costs of \$115 million increased \$36 million from third quarter 2017. The total borrowed funds yield of 2.90% increased 76 basis points from 2.14% in third quarter 2017 due to the rise in benchmark interest rates.

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

(dollars in millions)	Nine Months Ended September 30,							
	2018			2017			Change	
	Average	Income/Yields/		Average	Income/Yields/		Average	Yields/
	Balances	ExpenseRates		Balances	ExpenseRates		Balance	Rates
Assets								
Interest-bearing cash and due from banks and deposits in banks	\$1,616	\$21	1.75 %	\$1,902	\$13	0.87 %	(\$286)	)88 bps
Taxable investment securities	25,284	500	2.64	25,702	469	2.43	(418)	)21
Non-taxable investment securities	6	—	2.60	7	—	2.60	(1))—
Total investment securities	25,290	500	2.64	25,709	469	2.43	(419)	)21
Commercial	38,990	1,181	3.99	37,603	982	3.45	1,387	54
Commercial real estate	12,096	400	4.36	11,105	292	3.46	991	90
Leases	3,071	62	2.68	3,517	66	2.50	(446)	)18
Total commercial loans and leases	54,157	1,643	4.00	52,225	1,340	3.39	1,932	61
Residential mortgages	17,603	473	3.58	15,755	422	3.57	1,848	1
Home equity loans	1,253	55	5.86	1,668	71	5.71	(415)	)15
Home equity lines of credit	13,129	434	4.42	13,775	379	3.68	(646)	)74
Home equity loans serviced by others	481	26	7.33	668	35	7.06	(187)	)27
Home equity lines of credit serviced by others	130	4	4.14	189	6	4.00	(59)	)14
Automobile	12,681	342	3.60	13,563	328	3.23	(882)	)37
Education	8,380	357	5.69	7,384	292	5.29	996	40
Credit cards	1,864	150	10.74	1,699	138	10.85	165	(11)
Other retail	2,980	179	8.06	1,976	117	7.94	1,004	12
Total retail loans	58,501	2,020	4.61	56,677	1,788	4.21	1,824	40
Total loans and leases	112,658	3,663	4.32	108,902	3,128	3.82	3,756	50
Loans held for sale, at fair value	709	23	4.27	492	13	3.53	217	74
Other loans held for sale	193	9	6.32	158	6	5.29	35	103
Interest-earning assets	140,466	4,216	3.99	137,163	3,629	3.52	3,303	47
Allowance for loan and lease losses	(1,246)	)		(1,226)	)		(20))
Goodwill	6,900			6,882			18	
Other noninterest-earning assets	7,362			6,744			618	
Total assets	\$153,482			\$149,563			\$3,919	
Liabilities and Stockholders' Equity								
Checking with interest	\$21,877	\$96	0.59 %	\$21,457	\$56	0.35 %	\$420	24 bps
Money market accounts	36,689	239	0.87	37,439	140	0.50	(750)	)37
Regular savings	9,907	5	0.07	9,355	3	0.04	552	3
Term deposits	17,710	200	1.51	15,104	112	0.99	2,606	52
Total interest-bearing deposits	86,183	540	0.84	83,355	311	0.50	2,828	34
Federal funds purchased and securities sold under agreements to repurchase ⁽¹⁾	598	4	0.78	807	2	0.36	(209)	)42
Other short-term borrowed funds	1,802	42	3.08	2,283	22	1.23	(481)	)185
Long-term borrowed funds	13,242	270	2.71	12,755	201	2.10	487	61
Total borrowed funds	15,642	316	2.68	15,845	225	1.88	(203)	)80
Total interest-bearing liabilities	101,825	856	1.12	99,200	536	0.72	2,625	40
Demand deposits	29,031			27,886			1,145	
Other liabilities	2,551			2,613			(62))
Total liabilities	133,407			129,699			3,708	
Stockholders' equity	20,075			19,864			211	

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

Total liabilities and stockholders' equity	\$153,482			\$149,563			\$3,919
Interest rate spread			2.87 %			2.80 %	7
Net interest income	\$3,360			\$3,093			
Net interest margin			3.18 %			3.00 %	18 bps
Memo: Total deposits (interest-bearing and demand)	\$115,214	\$540	0.63 %	\$111,241	\$311	0.37 %	\$3,973 26 bps

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

Net interest margin of 3.18% increased 18 basis points compared to 3.00% in the first nine months of 2017, driven by higher interest-earning asset yields given higher interest rates and continued mix shift toward higher-yielding assets. These results were partially offset by the impact of higher deposit and other funding costs. Average interest-earning asset yields of 3.99% increased 47 basis points from 3.52% in the first nine months of 2017, while average interest-bearing liability costs of 1.12% increased 40 basis points from 0.72% in the first nine months of 2017.

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

Average interest-earning assets of \$140.5 billion increased \$3.3 billion, or 2%, from the first nine months of 2017, driven by a \$1.9 billion increase in average commercial loans and leases and a \$1.8 billion increase in average retail loans, partially offset by a \$705 million decrease in average investments and interest-bearing cash and due from banks and deposits in banks. Commercial loan growth was driven by commercial and commercial real estate. Retail loan growth was driven by residential mortgage, education and other retail.

Average deposits of \$115.2 billion increased \$4.0 billion from the first nine months of 2017, reflecting growth in term deposits, checking with interest, savings and demand deposits. Total interest-bearing deposit costs of \$540 million increased \$229 million, or 74%, from \$311 million in the first nine months of 2017, primarily due to rising rates.

Average total borrowed funds of \$15.6 billion decreased \$203 million from the first nine months of 2017, reflecting a decrease in other short-term borrowed funds and a decrease in federal funds purchased and repurchase agreements, partially offset by an increase in long-term borrowed funds, primarily senior debt. Total borrowed funds costs of \$316 million increased \$91 million from the first nine months of 2017. The total borrowed funds cost of 2.68% increased 80 basis points from 1.88% in the first nine months of 2017 due to an increase in long-term rates and a mix shift to long-term senior debt.

Noninterest Income

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Change	Percent	2018	2017	Change	Percent
(in millions)								
Service charges and fees	\$131	\$131	\$—	—	\$382	\$385	(\$3)	(1)
Card fees	61	58	3	5	182	177	5	3
Capital markets fees	47	53	(6)	(11)	134	152	(18)	(12)
Trust and investment services fees	45	38	7	18	128	116	12	10
Letter of credit and loan fees	32	30	2	7	94	90	4	4
Foreign exchange and interest rate products	31	24	7	29	92	77	15	19
Mortgage banking fees	49	27	22	81	101	80	21	26
Securities gains, net	3	2	1	50	13	9	4	44
Other income ⁽¹⁾	17	18	(1)	(6)	49	44	5	11
Noninterest income ⁽²⁾	\$416	\$381	\$35	9	\$1,175	\$1,130	\$45	4

⁽¹⁾ Includes net securities impairment losses on debt securities available for sale recognized in earnings, bank-owned life insurance income and other income. Amounts for the three and nine months ended September 30, 2017 include \$11 million of aircraft finance lease impairment charges.

⁽²⁾ 2018 noninterest income amounts reflect the adoption of ASU 2014-09, Revenue From Contracts With Customers (Topic 606).

Noninterest income of \$416 million increased \$35 million, or 9%, from \$381 million in third quarter 2017 driven by a \$24 million increase in mortgage banking fees related to FAMC. Third quarter results also reflect growth in trust and investment services fees, foreign exchange and interest rate products, card fees and letter of credit and loan fees, partially offset by lower capital market fees, including lower loan syndication fees in line with overall market activity. Noninterest income of \$1.2 billion increased \$45 million, or 4%, from \$1.1 billion in the first nine months of 2017, driven by strength in mortgage banking fees, reflecting the \$24 million impact of FAMC, as well as foreign exchange and interest rate products, trust and investment services fees, card fees and letter of credit and loan fees, partially offset by lower capital market fees and service charges and fees. Excluding the impact of 2017 aircraft finance lease impairments, Underlying noninterest income* in the first nine months of 2018 increased \$34 million, or 3%.

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

Provision for Credit Losses

The provision for credit losses of \$78 million increased \$6 million, or 8%, from \$72 million in third quarter 2017, reflecting strategic growth in high-quality commercial and retail assets. Third quarter 2018 results reflected an \$8 million reserve release, compared to a \$7 million reserve build in third quarter 2017, largely due to continued improvements in both the commercial credit risk profile and retail product mix. Third quarter 2018 net charge-offs of \$86 million were \$21 million higher than third quarter 2017 of \$65 million, primarily reflecting lower commercial recoveries and seasoning in unsecured retail and education portfolios.

The provision for credit losses of \$241 million increased \$3 million compared to \$238 million in the first nine months of 2017, reflecting moderately lower reserve growth partially offset by slightly higher net charge-offs. The first nine months of 2018 results reflected a \$9 million reserve build, compared to an \$11 million reserve build in the first nine months of 2017. Net charge-offs for the first nine months of 2018 of \$232 million were \$5 million higher than first nine months 2017 due to higher retail charge-offs, partially offset by lower commercial charge-offs. On an Underlying basis,* total credit-related costs decreased \$23 million, primarily due to the impact of 2017 aircraft lease impairments. The provision for loan and lease losses is the result of a detailed analysis performed to estimate an appropriate and adequate ALLL. The total provision for credit losses includes the provision for loan and lease losses as well as the provision for unfunded commitments. Refer to “—Analysis of Financial Condition — Allowance for Credit Losses and Nonperforming Assets” for more information.

Noninterest Expense

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

(in millions)	Three Months Ended September 30,				Nine Months Ended September 30,				
	2018	2017	Change	Percent	2018	2017	Change	Percent	
Salaries and employee benefits ⁽¹⁾⁽³⁾	\$474	\$438	\$36	8	% \$1,397	\$1,316	\$81	6	%
Outside services ⁽³⁾	107	99	8	8	312	286	26	9	
Occupancy	81	78	3	4	241	239	2	1	
Equipment expense	70	65	5	8	201	196	5	3	
Amortization of software	47	45	2	4	139	134	5	4	
Other operating expense ⁽¹⁾⁽²⁾⁽³⁾	131	133	(2)	(2)	378	405	(27)	(7)	
Noninterest expense	\$910	\$858	\$52	6	% \$2,668	\$2,576	\$92	4	%

⁽¹⁾ Salaries and employee benefits and other operating expense amounts reflect the impact of the adoption of ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.

⁽²⁾ Amounts for the nine months ended September 30, 2017 include \$15 million of aircraft operating lease impairment charges.

⁽³⁾ Amounts for the three and nine months ended September 30, 2018 include \$9 million of pre-tax FAMC integration costs, of which \$5 million is included in salaries and employee benefits, \$1 million is included in outside services and \$3 million is included in other operating expense.

Noninterest expense of \$910 million increased \$52 million, or 6%, from third quarter 2017, driven by \$25 million of FAMC costs, primarily in salaries and employee benefits, and \$9 million of FAMC integration costs. Additionally, higher salaries and employee benefits, outside services, equipment expense, occupancy and higher amortization of software were partially offset by lower other operating expense. Excluding FAMC integration costs, Underlying noninterest expense* increased \$43 million, or 5%.

Noninterest expense of \$2.7 billion increased \$92 million, or 4%, from the first nine months of 2017, reflecting higher salaries and employee benefits, driven by higher revenue-based incentives and merit increases, as well as higher

outside services expense, including continued investments to drive growth, \$25 million of FAMC costs, primarily in salaries and employee benefits, and \$9 million of FAMC integration costs. These increases were partially offset by lower other operating expense. Excluding FAMC integration costs and the impact of 2017 aircraft operating lease impairments, Underlying noninterest expense* increased \$98 million, or 4%.

Income Tax Expense

Income tax expense was \$133 million and \$165 million in third quarter 2018 and 2017, respectively. Our effective income tax rates in third quarter 2018 and 2017 were 23.2% and 32.2%, respectively. The decrease in the effective income tax rate was driven by the impact of December 2017 tax reform.

Income tax expense was \$370 million and \$423 million in the first nine months of 2018 and 2017, respectively. Our effective income tax rates in the first nine months of 2018 and 2017 were 22.8% and 30.0%, respectively. The

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

decrease in the effective income tax rate was driven by the impact of December 2017 tax reform, partially offset by the prior year beneficial settlement of certain state tax matters.

At September 30, 2018, our net deferred tax liability was \$430 million, compared with \$571 million at December 31, 2017. The decrease in the net deferred tax liability was attributable to the tax effect of interest rate driven net unrealized losses on securities and derivatives. For further discussion, see Note 16 "Income Taxes" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

Business Operating Segments

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

(dollars in millions)	As of and for the Three Months Ended			
	September 30, 2018			
	Consumer Banking	Commercial Banking	Other ⁽⁵⁾	Consolidated
Net interest income ⁽¹⁾	\$776	\$380	(\$8)	\$1,148
Noninterest income	258	140	18	416
Total revenue	1,034	520	10	1,564
Noninterest expense	686	202	22	910
Profit (loss) before provision for credit losses	348	318	(12)	654
Provision for credit losses	71	14	(7)	78
Income (loss) before income tax expense (benefit)	277	304	(5)	576
Income tax expense (benefit)	70	70	(7)	133
Net income	\$207	\$234	\$2	\$443
Loans and leases (period-end) ⁽²⁾	\$61,797	\$51,879	\$2,374	\$116,050
Average Balances:				
Total assets	\$62,974	\$52,871	\$39,779	\$155,624
Total loans and leases ⁽²⁾	61,045	51,881	2,402	115,328
Deposits	78,128	31,224	7,686	117,038
Interest-earning assets	61,097	52,137	28,929	142,163
Key Performance Metrics:				
Net interest margin ⁽³⁾	5.04	% 2.89	% NM	3.19 %
Efficiency ratio	66.29	38.83	NM	58.20
Loans-to-deposits ratio (average balances) ⁽⁴⁾	76.79	165.17	NM	97.38
Return on average total tangible assets ⁽³⁾	1.31	1.75	NM	1.18

⁽¹⁾ We periodically evaluate and refine our methodologies used to measure financial performance of our business operating segments. In first quarter 2018, we enhanced our assumptions for the liquidity and deposit components within our FTP methodology which provides a credit for sources of funds and a charge for the use of funds by each business operating segment. The enhancement largely provides increased credit for the stability of deposit composition, and an increased charge for unused commitments under lending arrangements. Prior periods have not been adjusted for this change.

⁽²⁾ Includes loans held for sale.

⁽³⁾ Ratios for the period ended September 30, 2018 are presented on an annualized basis.

⁽⁴⁾ We revised our method of calculating the loans-to-deposits ratio in the third quarter 2018 to exclude loans held for sale. Prior periods have been adjusted to conform with the current period presentation.

⁽⁵⁾ 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, including income tax expense, not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see "—Analysis of Financial Condition — Allowance for Credit Losses and Nonperforming Assets — Non-Core Assets."

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

(dollars in millions)	As of and for the Three Months Ended September 30, 2017			
	Consumer Banking	Commercial Banking	Other ⁽⁴⁾	Consolidated
Net interest income	\$674	\$354	\$34	\$1,062
Noninterest income	227	136	18	381
Total revenue	901	490	52	1,443
Noninterest expense	648	195	15	858
Profit before provision for credit losses	253	295	37	585
Provision for credit losses	65	—	7	72
Income before income tax expense	188	295	30	513
Income tax expense	66	94	5	165
Net income	\$122	\$201	\$25	\$348
Loans and leases (period-end) ⁽¹⁾	\$59,211	\$49,313	\$2,851	\$111,375
Average Balances:				
Total assets	\$60,012	\$49,833	\$40,167	\$150,012
Total loans and leases ⁽¹⁾	58,679	48,746	2,796	110,221
Deposits	75,085	30,751	7,111	112,947
Interest-earning assets	58,729	48,875	29,875	137,479
Key Performance Metrics:				
Net interest margin ⁽²⁾	4.55	% 2.88	% NM	3.05 %
Efficiency ratio	71.88	39.39	NM	59.41
Loans-to-deposits ratio (average balances) ⁽³⁾	77.69	157.26	NM	96.93
Return on average total tangible assets ⁽²⁾	0.81	1.60	NM	0.96

⁽¹⁾ Includes loans held for sale.

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

⁽³⁾ We revised our method of calculating the loans-to-deposits ratio in the third quarter 2018 to exclude loans held for sale. Prior periods have been adjusted to conform with the current period presentation.

⁽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, including income tax expense, not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see “—Analysis of Financial Condition — Allowance for Credit Losses and Nonperforming Assets — Non-Core Assets.”

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

(dollars in millions)	As of and for the Nine Months Ended September 30, 2018			
	Consumer Banking	Commercial Banking	Other ⁽⁵⁾	Consolidated
Net interest income ⁽¹⁾	\$2,268	\$1,113	(\$21)	\$3,360
Noninterest income	708	405	62	1,175
Total revenue	2,976	1,518	41	4,535
Noninterest expense	2,000	610	58	2,668
Profit (loss) before provision for credit losses	976	908	(17)	1,867
Provision for credit losses	209	19	13	241
Income (loss) before income tax expense (benefit)	767	889	(30)	1,626
Income tax expense (benefit)	193	203	(26)	370
Net income (loss)	\$574	\$686	(\$4)	\$1,256
Loans and leases (period-end) ⁽²⁾	\$61,797	\$51,879	\$2,374	\$116,050
Average Balances:				
Total assets	\$61,857	\$51,820	\$39,805	\$153,482
Total loans and leases ⁽²⁾	60,277	50,799	2,484	113,560
Deposits	76,992	30,736	7,486	115,214
Interest-earning assets	60,328	51,016	29,122	140,466
Key Performance Metrics:				
Net interest margin ⁽³⁾	5.03	% 2.92	% NM	3.18 %
Efficiency ratio	67.20	40.16	NM	58.84
Loans-to-deposits ratio (average balances) ⁽⁴⁾	77.59	164.08	NM	97.78
Return on average total tangible assets ⁽³⁾	1.24	1.77	NM	1.14

⁽¹⁾ We periodically evaluate and refine our methodologies used to measure financial performance of our business operating segments. In first quarter 2018, we enhanced our assumptions for the liquidity and deposit components within our FTP methodology which provides a credit for sources of funds and a charge for the use of funds by each business operating segment. The enhancement largely provides increased credit for the stability of deposit composition, and an increased charge for unused commitments under lending arrangements. Prior periods have not been adjusted for this change.

⁽²⁾ Includes loans held for sale.

⁽³⁾ Ratios for the period ended September 30, 2018 are presented on an annualized basis.

⁽⁴⁾ We revised our method of calculating the loans-to-deposits ratio in the third quarter 2018 to exclude loans held for sale. Prior periods have been adjusted to conform with the current period presentation.

⁽⁵⁾ 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, including income tax expense, not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see “—Analysis of Financial Condition — Allowance for Credit Losses and Nonperforming Assets — Non-Core Assets.”

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

(dollars in millions)	As of and for the Nine Months Ended September 30, 2017			
	Consumer Banking	Commercial Banking	Other ⁽⁴⁾	Consolidated
Net interest income	\$1,969	\$1,044	\$80	\$3,093
Noninterest income	676	400	54	1,130
Total revenue	2,645	1,444	134	4,223
Noninterest expense	1,939	577	60	2,576
Profit before provision for credit losses	706	867	74	1,647
Provision for credit losses	189	20	29	238
Income before income tax expense (benefit)	517	847	45	1,409
Income tax expense (benefit)	182	279	(38)	423
Net income	\$335	\$568	\$83	\$986
Loans and leases (period-end) ⁽¹⁾	\$59,211	\$49,313	\$2,851	\$111,375
Average Balances:				
Total assets	\$59,310	\$49,604	\$40,649	\$149,563
Total loans and leases ⁽¹⁾	57,975	-48,560	3,017	109,552
Deposits	74,778	29,496	6,967	111,241
Interest-earning assets	58,026	48,696	30,441	137,163
Key Performance Metrics				
Net interest margin ⁽²⁾	4.54	% 2.87	% NM	3.00 %
Efficiency ratio	73.28	39.89	NM	60.99
Loans-to-deposits ratio (average balances) ⁽³⁾	77.04	163.72	NM	97.90
Return on average total tangible assets ⁽²⁾	0.76	1.53	NM	0.92

⁽¹⁾ Includes loans held for sale.

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

⁽³⁾ We revised our method of calculating the loans-to-deposits ratio in the third quarter 2018 to exclude loans held for sale. Prior periods have been adjusted to conform with the current period presentation.

⁽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, including income tax expense, not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see “—Analysis of Financial Condition — Allowance for Credit Losses and Nonperforming Assets — Non-Core Assets.”

We have two business operating segments: Consumer Banking and Commercial Banking. Segment results are derived by specifically attributing managed assets, liabilities, capital and 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, including income tax expense. For a description of non-core assets, see “—Analysis of Financial Condition — Allowance for Credit Losses and Nonperforming Assets — 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. Our capital levels are evaluated and managed centrally, however, capital is allocated on a risk-adjusted basis considering economic and regulatory capital requirements to the business operating segments to support evaluation of business performance. Because funding and asset liability management is a central function, funds transfer pricing (“FTP”) methodologies are utilized to allocate a cost of funds used, or credit for the funds provided, to all business

operating 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 FTP process, is included in Other. We periodically evaluate and refine our methodologies used to measure financial performance of our business operating segments.

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

Noninterest income and expense are directly attributed to each business operating segment, including fees, service charges, salaries and benefits, and other direct revenues and costs, and are respectively accounted for in a manner similar to our unaudited interim Consolidated Financial Statements. Occupancy costs are allocated based on utilization of facilities by each business operating segment. Noninterest expenses incurred by centrally managed

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

operations or business operating segments that directly support another business operating segment's operations are charged to the applicable business operating segment based on its utilization of those services.

Income taxes are assessed to each business operating 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 operating segments is a dynamic process. Accordingly, financial results may be revised periodically as management systems are enhanced, methods of evaluating performance or product lines change, or our organizational structure changes.

Consumer Banking

(dollars in millions)	As of and for the Three Months Ended September 30,				As of and for the Nine Months Ended September 30,			
	2018	2017	Change	Percent	2018	2017	Change	Percent
Net interest income ⁽¹⁾	\$776	\$674	\$102	15 %	\$2,268	\$1,969	\$299	15 %
Noninterest income	258	227	31	14	708	676	32	5
Total revenue	1,034	901	133	15	2,976	2,645	331	13
Noninterest expense	686	648	38	6	2,000	1,939	61	3
Profit before provision for credit losses	348	253	95	38	976	706	270	38
Provision for credit losses	71	65	6	9	209	189	20	11
Income before income tax expense	277	188	89	47	767	517	250	48
Income tax expense	70	66	4	6	193	182	11	6
Net income	\$207	\$122	\$85	70	\$574	\$335	\$239	71
Loans (period-end) ⁽²⁾	\$61,797	\$59,211	\$2,586	4	\$61,797	\$59,211	\$2,586	4
Average Balances:								
Total assets	\$62,974	\$60,012	\$2,962	5 %	\$61,857	\$59,310	\$2,547	4 %
Total loans and leases ⁽²⁾	61,045	58,679	2,366	4	60,277	57,975	2,302	4
Deposits	78,128	75,085	3,043	4	76,992	74,778	2,214	3
Interest-earning assets	61,097	58,729	2,368	4	60,328	58,026	2,302	4
Key Performance Metrics:								
Net interest margin ⁽³⁾	5.04 %	4.55 %	49 bps		5.03 %	4.54 %	49 bps	
Efficiency ratio	66.29	71.88	(559 bps)		67.20	73.28	(608 bps)	
Loans-to-deposits ratio (average)	76.79	77.69	(90 bps)		77.59	77.04	55 bps	

balances)⁽⁴⁾

Return on average total tangible assets ⁽³⁾	1.31	0.81	50	bps	1.24	0.76	48	bps
--	------	------	----	-----	------	------	----	-----

(1) We periodically evaluate and refine our methodologies used to measure financial performance of our business operating segments. In first quarter 2018, we enhanced our assumptions for the liquidity and deposit components within our FTP methodology which provides a credit for sources of funds and a charge for the use of funds by each business operating segment. The enhancement largely provides increased credit for the stability of deposit composition, and an increased charge for unused commitments under lending arrangements. Prior periods have not been adjusted for this change.

(2) Includes loans held for sale.

(3) Ratios for the periods ended September 30, 2018 and 2017 are presented on an annualized basis.

(4) We revised our method of calculating the loans-to-deposits ratio in the third quarter 2018 to exclude loans held for sale. Prior periods have been adjusted to conform with the current period presentation.

Consumer Banking net interest income of \$776 million increased \$102 million, or 15%, from third quarter 2017, driven by the impact of the FTP methodology enhancement as well as the benefit of a \$2.4 billion increase in average loans led by residential mortgage, education and unsecured retail with higher loan yields that included the benefit of higher rates and continued mix shift towards higher yielding assets, partially offset by an increase in deposit costs. Noninterest income increased \$31 million from third quarter 2017, driven by a \$24 million increase in mortgage banking fees related to FAMC. Results also reflect higher trust and investment services fees. Noninterest expense of \$686 million increased \$38 million, or 6%, from third quarter 2017, driven by a \$25 million increase resulting from FAMC, higher salaries and benefits, and advertising. Provision for credit losses of \$71 million increased \$6 million, or 9%, reflecting loan growth and seasoning in unsecured retail and education.

Consumer Banking net interest income of \$2.3 billion increased \$299 million, or 15%, from the first nine months of 2017, driven by the impact of the FTP methodology enhancement as well as the benefit of a \$2.3 billion increase in average loans led by residential mortgage, education and unsecured retail with higher loan yields that included the benefit of higher rates and continued mix shift towards higher yielding assets, partially offset by an increase in deposit costs. Noninterest income increased \$32 million from the first nine months of 2017, driven by a \$24 million increase in mortgage banking fees related to FAMC. Results also reflect higher trust and investment

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

service fees partially offset by lower service charges and fees. Noninterest expense of \$2.0 billion increased \$61 million, or 3%, from the first nine months of 2017, driven by a \$25 million increase related to FAMC, higher salaries and employee benefits, advertising, and outside services. Provision for credit losses of \$209 million increased \$20 million, or 11%, reflecting balance growth and seasoning in unsecured retail and education.

On November 5, 2018, we announced the acquisition of Clarfeld Financial Advisors, LLC, a leading wealth management firm and multi-family office headquartered in Tarrytown, New York.

Commercial Banking

(dollars in millions)	As of and for the Three Months Ended September 30,				As of and for the Nine Months Ended September 30,				
	2018	2017	Change	Percent	2018	2017	Change	Percent	
Net interest income ⁽¹⁾	\$380	\$354	\$26	7 %	\$1,113	\$1,044	\$69	7 %	
Noninterest income	140	136	4	3	405	400	5	1	
Total revenue	520	490	30	6	1,518	1,444	74	5	
Noninterest expense	202	195	7	4	610	577	33	6	
Profit before provision for credit losses	318	295	23	8	908	867	41	5	
Provision for credit losses	14	—	14	100	19	20	(1)	(5)	
Income before income tax expense	304	295	9	3	889	847	42	5	
Income tax expense	70	94	(24)	(26)	203	279	(76)	(27)	
Net income	\$234	\$201	\$33	16	\$686	\$568	\$118	21	
Loans and leases (period-end) ⁽²⁾	\$51,879	\$49,313	\$2,566	5	\$51,879	\$49,313	\$2,566	5	
Average Balances:									
Total assets	\$52,871	\$49,833	\$3,038	6 %	\$51,820	\$49,604	\$2,216	4 %	
Total loans and leases ⁽²⁾	51,881	48,746	3,135	6	50,799	48,560	2,239	5	
Deposits	31,224	30,751	473	2	30,736	29,496	1,240	4	
Interest-earning assets	52,137	48,875	3,262	7	51,016	48,696	2,320	5	
Key Performance Metrics:									
Net interest margin ⁽³⁾	2.89 %	2.88 %	1 bps		2.92 %	2.87 %	5 bps		
Efficiency ratio	38.83	39.39	(56)	bps	40.16	39.89	27	bps	
Loans-to-deposits ratio (average balances) ⁽⁴⁾	165.17	157.26	791	bps	164.08	163.72	36	bps	
Return on average total tangible assets ⁽³⁾	1.75	1.60	15	bps	1.77	1.53	24	bps	

⁽¹⁾ We periodically evaluate and refine our methodologies used to measure financial performance of our business operating segments. In first quarter 2018, we enhanced our assumptions for the liquidity and deposit components within our FTP methodology which provides a credit for sources of funds and a charge for the use of funds by each business operating segment. The enhancement largely provides increased credit for the stability of deposit composition, and an increased charge for unused commitments under lending arrangements. Prior periods have not been adjusted for this change.

⁽²⁾ Includes loans held for sale.

⁽³⁾ Ratios for the periods ended September 30, 2018 and 2017 are presented on an annualized basis.

⁽⁴⁾ We revised our method of calculating the loans-to-deposits ratio in the third quarter 2018 to exclude loans held for sale. Prior periods have been adjusted to conform with the current period presentation.

Commercial Banking net interest income of \$380 million increased \$26 million, or 7%, from \$354 million in third quarter 2017, reflecting a \$3.1 billion increase in average loans and leases and a \$473 million increase in average deposits. Noninterest income of \$140 million increased \$4 million, or 3%, from \$136 million in third quarter 2017, reflecting higher foreign exchange and interest rate product fees and card fees. Noninterest expense of \$202 million increased \$7 million, or 4%, from \$195 million in third quarter 2017, largely driven by higher salaries and employee benefits. Provision for credit losses increased \$14 million from third quarter 2017 due to higher net charge-offs. Commercial Banking net interest income of \$1.1 billion increased \$69 million, or 7%, from \$1.0 billion in the first nine months of 2017, reflecting a \$2.2 billion increase in average loans and leases and a \$1.2 billion increase in average deposits. Noninterest income of \$405 million increased \$5 million, or 1%, from \$400 million in the first nine months of 2017, reflecting higher foreign exchange and interest rate products and card fees. Noninterest expense of \$610 million increased \$33 million, or 6%, from \$577 million in the first nine months of 2017, largely driven by higher salaries and employee benefits. Provision for credit losses was relatively stable with the first nine months of 2017.

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

Other

(in millions)	As of and for the Three Months Ended September 30,				As of and for the Nine Months Ended September 30,			
	2018	2017	Change	Percent	2018	2017	Change	Percent
Net interest income ⁽¹⁾	(\$8)	\$34	(\$42)	(124 %)	(\$21)	\$80	(\$101)	(126 %)
Noninterest income	18	18	—	—	62	54	8	15
Total revenue	10	52	(42)	(81)	41	134	(93)	(69)
Noninterest expense	22	15	7	47	58	60	(2)	(3)
(Loss) profit before provision for credit losses	(12)	37	(49)	(132)	(17)	74	(91)	(123)
Provision for credit losses	(7)	7	(14)	(200)	13	29	(16)	(55)
(Loss) income before income tax (benefit) expense	(5)	30	(35)	(117)	(30)	45	(75)	(167)
Income tax (benefit) expense	(7)	5	(12)	(240)	(26)	(38)	12	32
Net income (loss)	\$2	\$25	(\$23)	(92)	(\$4)	\$83	(\$87)	(105)
Loans and leases (period-end) ⁽²⁾	\$2,374	\$2,851	(\$477)	(17)	\$2,374	\$2,851	(\$477)	(17)
Average Balances:								
Total assets	\$39,779	\$40,167	(\$388)	(1 %)	\$39,805	\$40,649	(\$844)	(2 %)
Total loans and leases ⁽²⁾	2,402	2,796	(394)	(14)	2,484	3,017	(533)	(18)
Deposits	7,686	7,111	575	8	7,486	6,967	519	7
Interest-earning assets	28,929	29,875	(946)	(3)	29,122	30,441	(1,319)	(4)

⁽¹⁾ We periodically evaluate and refine our methodologies used to measure financial performance of our business operating segments. In first quarter 2018, we enhanced our assumptions for the liquidity and deposit components within our FTP methodology which provides a credit for sources of funds and a charge for the use of funds by each business operating segment. The enhancement largely provides increased credit for the stability of deposit composition, and an increased charge for unused commitments under lending arrangements. Prior periods have not been adjusted for this change.

⁽²⁾ Includes loans held for sale.

Other net interest income decreased \$42 million driven by higher funding costs, the declining benefit of swaps and non-core portfolio runoff, partially offset by residual FTP and higher investment portfolio income. Noninterest income remained stable, while noninterest expense increased \$7 million due to FAMC integration costs. Results also reflected a reserve release of \$8 million in third quarter 2018, compared to a reserve build of \$7 million in third quarter 2017. Other net interest income decreased \$101 million reflecting an FTP methodology enhancement, higher funding costs, the declining benefit of swaps and non-core portfolio runoff. Results also reflected lower net charge-offs and a reserve build of \$9 million in the first nine months of 2018, compared to a reserve build of \$11 million in the first nine months of 2017. Other net loss of \$4 million decreased from net income of \$83 million in the first nine months of 2017, primarily driven by lower net interest income and a \$23 million benefit related to the settlement of state tax matters in the first nine months of 2017.

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

ANALYSIS OF FINANCIAL CONDITION

Securities

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

(in millions)	September 30, 2018		December 31, 2017		Change in Fair Value	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value		
Debt Securities Available for Sale, At Fair Value: ⁽¹⁾						
U.S. Treasury and other	\$12	\$12	\$12	\$12	\$—	— %
State and political subdivisions	5	5	6	6	(1)	(17)
Mortgage-backed securities:						
Federal agencies and U.S. government sponsored entities	20,703	19,886	20,065	19,828	58	—
Other/non-agency	251	249	311	311	(62)	(20)
Total mortgage-backed securities	20,954	20,135	20,376	20,139	(4)	—
Total debt securities available for sale, at fair value	\$20,971	\$20,152	\$20,394	\$20,157	(\$5)	— %
Debt Securities Held to Maturity: ⁽¹⁾						
Mortgage-backed securities:						
Federal agencies and U.S. government sponsored entities	\$3,525	\$3,348	\$3,853	\$3,814	(\$466)	(12%)
Other/non-agency	759	754	832	854	(100)	(12)
Total mortgage-backed securities	4,284	4,102	4,685	4,668	(566)	(12)
Total debt securities held to maturity	\$4,284	\$4,102	\$4,685	\$4,668	(\$566)	(12)
Total debt securities available for sale and held to maturity	\$25,255	\$24,254	\$25,079	\$24,825	(\$571)	(2 %)
Equity Securities: ⁽¹⁾						
Equity securities, at fair value	\$175	\$175	\$169	\$169	\$6	4 %
Equity securities, at cost	874	874	722	722	152	21
Total equity securities	\$1,049	\$1,049	\$891	\$891	\$158	18 %

⁽¹⁾As of January 1, 2018, we adopted ASU 2016-01, Financial Instruments, Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet.

The fair value of the AFS debt portfolio of \$20.2 billion at September 30, 2018 remained stable with December 31, 2017 as an increase in net unrealized losses on mortgage-backed securities of \$582 million due to higher interest rates, was offset by net portfolio additions. The decline in the fair value of the HTM debt portfolio of \$566 million was attributable to an increase in net unrealized losses on mortgage-backed securities of \$165 million due to higher interest rates and \$401 million in net attrition of the portfolio.

As of September 30, 2018, the portfolio's average effective duration was 4.7 years compared with 3.9 years as of December 31, 2017, as higher long-term rates drove a decrease 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 96% of the fair value of the debt securities portfolio holdings. The portfolio composition is also dominated by holdings backed by mortgages to facilitate our ability to pledge them to the FHLBs for collateral purposes. For further discussion of the liquidity coverage ratios, see

“Regulation and Supervision — Liquidity Standards” in Part I — Business, included in our Annual Report on Form 10-K for the year ended December 31, 2017.

27

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 service a portion of internally. The following table shows the composition of loans and leases, including non-core loans, as of:

(in millions)	September 30, 2018	December 31, 2017	Change	Percent
Commercial	\$39,770	\$37,562	\$2,208	6 %
Commercial real estate	12,630	11,308	1,322	12
Leases	3,005	3,161	(156)	(5)
Total commercial loans and leases	55,405	52,031	3,374	6
Residential mortgages	18,493	17,045	1,448	8
Home equity loans	1,131	1,392	(261)	(19)
Home equity lines of credit	12,863	13,483	(620)	(5)
Home equity loans serviced by others	429	542	(113)	(21)
Home equity lines of credit serviced by others	114	149	(35)	(23)
Automobile	12,255	13,204	(949)	(7)
Education	8,712	8,134	578	7
Credit cards	1,911	1,848	63	3
Other retail	3,407	2,789	618	22
Total retail loans	59,315	58,586	729	1
Total loans and leases ^{(1) (2)}	\$114,720	\$110,617	\$4,103	4 %

⁽¹⁾ Excluded from the table above are loans held for sale totaling \$1.3 billion and \$718 million as of September 30, 2018 and December 31, 2017, respectively.

⁽²⁾ Mortgage loans serviced for others by our subsidiaries are not included above and amounted to \$67.5 billion and \$20.3 billion at September 30, 2018 and December 31, 2017, respectively.

Total commercial loans and leases of \$55.4 billion increased \$3.4 billion from \$52.0 billion as of December 31, 2017, reflecting commercial loan growth of \$2.2 billion and commercial real estate loan growth of \$1.3 billion. Total retail loans of \$59.3 billion increased \$729 million from \$58.6 billion as of December 31, 2017, driven by increases of \$1.4 billion, \$618 million and \$578 million in residential mortgages, other retail and education loans, respectively, offset by decreases of \$949 million, \$620 million, \$261 million and \$113 million in automobile loans, home equity lines of credit, home equity loans and home equity loans serviced by others, respectively.

Allowance for Credit Losses and Nonperforming Assets

The ACL, 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 ACL, see “—Critical Accounting Estimates — Allowance for Credit Losses” and Note 5 “Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk” to the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017 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 ACL totaled \$1.3 billion at September 30, 2018 and December 31, 2017. The ALLL represented 1.08% of total loans and leases and 149% of nonperforming loans and leases as of September 30, 2018, compared with 1.12% and 142%, respectively, as of December 31, 2017. As of September 30, 2018, there were no material changes in assumptions or estimation techniques compared with prior periods that impacted the determination of the current period's reserves. As of December 31, 2017, we enhanced the method for assessing various qualitative risks, factors

and events that may not be measured in the modeled results. As a result, the qualitative allowance was presented within each loan class.

Overall credit quality remained strong, reflecting growth in higher-quality, lower-risk retail loans and a broadly stable risk profile in the commercial loan and lease portfolios. Nonperforming loans and leases of \$832 million as of September 30, 2018 decreased \$39 million from December 31, 2017, reflecting a \$32 million decrease in retail nonperforming loans attributable to a \$31 million decrease in real estate secured categories. Third quarter

28

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

2018 net charge-offs of \$86 million were up \$21 million from third quarter 2017, reflecting lower commercial recoveries and seasoning in unsecured retail and education portfolios. Third quarter 2018 annualized net charge-offs of 30 basis points of average loans and leases was up six basis points compared with 24 basis points in third quarter 2017. Net charge-offs of \$232 million for the first nine months of 2018 increased \$5 million, or 2%, from \$227 million for the first nine months of 2017. Annualized net charge-offs as a percentage of total average loans of 0.27% remained stable compared to 0.28% in the first nine months of 2017.

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 utilize 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 or potential weakness that indicate an increased probability of future loss. "Criticized" loans are grouped into three categories, "special mention," "substandard" and "doubtful." Special mention loans have potential weaknesses that, if left uncorrected, may result in deterioration of our credit position at some future date. Substandard loans are inadequately protected loans; these loans have well-defined weaknesses that could hinder normal repayment or collection of the debt. Doubtful loans have the same weaknesses as substandard, with the added characteristics that the possibility of loss is high and collection of the full amount of the loan is improbable. These credit quality indicators for commercial loans are continually updated and monitored. See Note 4 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

As of September 30, 2018, nonperforming commercial loans and leases of \$258 million decreased \$7 million from \$265 million as of December 31, 2017. Total commercial nonperforming loans were 0.5% of the commercial loan portfolio as of September 30, 2018 and December 31, 2017. Total commercial loan and lease portfolio net charge-offs of \$16 million for the third quarter 2018 compared to zero for the third quarter 2017. The commercial loan and lease portfolio's annualized net charge-off rate of 12 basis points for third quarter 2018 compared to one basis point in third quarter 2017. Total commercial loan and lease portfolio net charge-offs were \$25 million for the first nine months of 2018, decreasing from \$33 million for the first nine months of 2017. The commercial loan and lease portfolio's annualized net charge-off rate of six basis points for the first nine months of 2018 decreased compared to an annualized net charge-off rate of nine basis points for the first nine months of 2017.

The recorded investment in commercial loans and leases based on regulatory classification ratings is presented below:

(in millions)	September 30, 2018				
	Pass	Criticized Special Mention	Substandard	Doubtful	Total
Commercial	\$37,242	\$1,441	\$854	\$233	\$39,770
Commercial real estate	12,193	282	127	28	12,630
Leases	2,909	49	47	—	3,005
Total commercial loans and leases	\$52,344	\$1,772	\$1,028	\$261	\$55,405

(in millions)	December 31, 2017				
	Pass	Criticized Special Mention	Substandard	Doubtful	Total
Commercial	\$35,430	\$1,143	\$785	\$204	\$37,562
Commercial real estate	10,706	500	74	28	11,308
Leases	3,069	73	19	—	3,161

Total commercial loans and leases \$49,205 \$1,716 \$878 \$232 \$52,031

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

Total commercial criticized loans and leases of \$3.1 billion at September 30, 2018 increased \$235 million, or 8%, from \$2.8 billion at December 31, 2017. The increase in criticized assets is largely focused on general restaurant portfolio loans, which reflects our prudent approach of moving loans to special mention where they receive heightened monitoring. We believe there are adequate reserves in place and there is not a high loss content in these loans.

Retail Loan Asset Quality

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

The following tables present asset quality metrics for the retail loan portfolio:

	September 30, 2018	December 31, 2017
Average refreshed FICO for total portfolio	764	762
CLTV ratio for secured real estate ⁽¹⁾	59	59
Nonperforming retail loans as a percentage of total retail	0.97 %	1.03 %

⁽¹⁾ The real estate secured portfolio CLTV is calculated as the mortgage and second lien loan balance divided by the most recently available value of the property.

(dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Change	Percent	2018	2017	Change	Percent
Net charge-offs	\$70	\$65	\$5	8 %	\$207	\$194	\$13	7 %
Annualized net charge-off rate	0.47%	0.44 %	3 bps		0.47 %	0.46 %	1 bps	

Retail credit and asset quality remains strong. Overall losses and nonperforming loans remain within expectations, and the weighted average portfolio refreshed FICO and weighted average refreshed portfolio CLTV ratio remain stable compared to previously reported.

Retail net charge-offs for the three and nine months ended September 30, 2018 increased from 2017 levels, reflecting seasoning in unsecured retail and education portfolios. Nonperforming retail loans remains stable as a percentage of total retail loans at 0.97% as of September 30, 2018, compared to 1.03% as of December 31, 2017.

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.

Summarized data for the HELOC portfolio and the portion originated during the period of rapid home price appreciation between 2003 and 2007 is presented below:

(dollars in millions)	Balance	% Secured by First Lien	FICO	LTV
Total HELOCs as of September 30, 2018 ⁽¹⁾	\$12,977	52 %	767	57 %
HELOCs scheduled to reset 10/1/18 - 12/31/21	1,864	53	760	52

⁽¹⁾ Includes \$116 million scheduled to reach the end of the interest-only draw period and enter repayment of principal and interest for the remainder of 2018.

30

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

The performance of our historical vintages that have entered repayment remains stable. The following table presents the asset quality metrics as of September 30, 2018, for the HELOCs reset at each year ending:

(dollars in millions)	2014/2015	2016	2017
Balance reset	\$1,688	\$738	\$730
Percent refinanced, paid off, or current	94	% 95	% 95
Percent past due	3	3	4
Percent charged-off	3	2	1

The largest retail portfolio subject to payment reset, borrowers ending an interest-only draw period and entering repayment of principal and interest, is the HELOC portfolio. As of September 30, 2018, the HELOC portfolio totaled \$13.0 billion with \$116 million scheduled to reach the end of the interest-only draw period and enter repayment of principal and interest for the remainder of 2018 and \$1.9 billion scheduled to reach the end of the interest-only draw period and enter repayment of principal and interest between October 1, 2018 and December 31, 2021. As outlined in the tables above, the credit composition of the balances maturing through 2021 remains in line with the overall HELOC portfolio and the performance of the 2014 - 2017 matured vintages continues to remain stable. Factors that affect our future expectations for continued relatively low charge-off risk in the face of rising interest rates for the portion of our HELOC portfolio subject to reset in future periods include a relatively high level of first lien collateral positions, improved loan-to-value ratios resulting from continued home price appreciation, relatively stable portfolio credit score profiles and continued robust loss mitigation efforts.

Troubled Debt Restructurings

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

As of September 30, 2018, \$735 million of retail loans were classified as TDRs, compared with \$761 million as of December 31, 2017. As of September 30, 2018, \$183 million of retail TDRs were in nonaccrual status with 53% current with payments, an improvement compared to \$211 million in nonaccrual status with 51% current on payments at December 31, 2017. TDRs generally return to accrual status once repayment capacity and appropriate payment history can be established. TDRs are individually evaluated for impairment and loans, once classified as TDRs, remain classified as TDRs until paid off, sold or refinanced at market terms.

For additional information regarding TDRs, see "—Critical Accounting Estimates — Allowance for Credit Losses," and Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017 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.

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

The following tables present retail TDRs by loan class, including delinquency status for accruing TDRs and TDRs in nonaccrual:

(dollars in millions)	September 30, 2018					
	As a % of					
	Accruing					
	Retail					
	TDRs					
	30-89		90+		Nonaccruing	Total
	Days	Days	Days	Days		
	Accruing	Past	Past	Past		
	Due	Due	Due	Due		
Residential mortgages	\$111	0.8%	1.7%	\$45		\$156
Home equity loans	81	0.3	—	25		106
Home equity lines of credit	145	0.6	—	63		208
Home equity loans serviced by others	32	0.3	—	11		43
Home equity lines of credit serviced by others	4	—	—	5		9
Automobile	14	0.2	—	11		25
Education	135	0.7	0.4	22		157
Credit cards	23	0.3	—	1		24
Other retail	7	—	—	—		7
Total	\$552	3.4%	2.1%	\$183		\$735

(dollars in millions)	December 31, 2017					
	As a % of					
	Accruing					
	Retail					
	TDRs					
	30-89		90+		Nonaccruing	Total
	Days	Days	Days	Days		
	Accruing	Past	Past	Past		
	Due	Due	Due	Due		
Residential mortgages	\$98	2.7%	2.0%	\$53		\$151
Home equity loans	86	0.7	—	35		121
Home equity lines of credit	128	1.1	—	69		197
Home equity loans serviced by others	38	0.4	—	13		51
Home equity lines of credit serviced by others	4	—	—	5		9
Automobile	12	0.2	—	11		23
Education	152	1.3	0.5	23		175
Credit cards	24	0.4	—	1		25
Other retail	8	—	—	1		9
Total	\$550	6.7%	2.5%	\$211		\$761

Non-Core Assets

(in millions)	September	December	Change	Percent
	30, 2018	31, 2017		
Commercial	\$71	\$56	\$15	27 %
Commercial real estate	16	19	(3)	(16)
Leases	712	752	(40)	(5)
Total commercial loans and leases	799	827	(28)	(3)

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

Residential mortgages	115	136	(21)	(15)
Home equity loans	32	40	(8)	(20)
Home equity lines of credit	21	30	(9)	(30)
Home equity loans serviced by others	429	542	(113)	(21)
Home equity lines of credit serviced by others	114	149	(35)	(23)
Education	220	254	(34)	(13)
Total retail loans	931	1,151	(220)	(19)
Total non-core loans and leases	1,730	1,978	(248)	(13)
Other assets	97	112	(15)	(13)
Total non-core assets	\$1,827	\$2,090	(\$263)	(13 %)

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. The largest

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

component of our retail non-core portfolio is the home equity serviced by others portfolio ("SBO"), which totaled \$543 million as of September 30, 2018, compared to \$691 million as of December 31, 2017. The SBO portfolio consists of home equity loans and lines of credit purchased between 2003 and 2007 that were initially serviced by others. We now service about half of this portfolio internally. The credit profile of the SBO portfolio reflected a weighted-average refreshed FICO score of 711 and CLTV of 78% as of September 30, 2018. The proportion of the portfolio in a second lien position was 97%, with 69% of the portfolio in out-of-footprint geographies. SBO net recoveries of \$4 million in third quarter 2018 reflected a \$1 million improvement from third quarter 2017, driven by continued portfolio seasoning, recoveries from aged charge-offs, and balance liquidation.

The largest component of our commercial non-core portfolio is an aircraft-related lease portfolio tied to legacy Royal Bank of Scotland Group aircraft leasing borrowers, which totaled \$712 million and \$752 million as of September 30, 2018 and December 31, 2017, respectively.

Deposits

The table below presents the major components of our deposits:

(in millions)	September 30, 2018	December 31, 2017	Change	Percent
Demand	\$29,785	\$29,279	\$506	2 %
Checking with interest	22,323	22,229	94	—
Regular savings	10,523	9,518	1,005	11
Money market accounts	35,613	37,454	(1,841)	(5)
Term deposits	18,831	16,609	2,222	13
Total deposits	\$117,075	\$115,089	\$1,986	2 %

Total deposits as of September 30, 2018 increased \$2.0 billion, or 2%, to \$117.1 billion, from \$115.1 billion as of December 31, 2017, reflecting growth in term, regular savings, demand and checking with interest, offset by lower money market accounts.

Borrowed Funds

Short-term borrowed funds

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

(in millions)	September 30, 2018	December 31, 2017	Change	Percent
Federal funds purchased	\$—	\$460	(\$460)	(100 %)
Securities sold under agreements to repurchase	374	355	19	5
Other short-term borrowed funds ⁽¹⁾	2,006	1,856	150	8
Total short-term borrowed funds	\$2,380	\$2,671	(\$291)	(11 %)

⁽¹⁾ September 30, 2018 includes \$1.5 billion of debt issued under CBNA's Global Bank Note Program maturing within one year, with unamortized deferred issuance costs and/or discounts of (\$1) million and other basis adjustments of (\$5) million. December 31, 2017 includes \$750 million of debt issued under CBNA's Global Bank Note Program maturing within one year, with unamortized deferred issuance costs and/or discounts of (\$1) million and other basis adjustments of (\$4) million.

The net increase in other short-term borrowed funds of \$150 million resulted from an increase of \$749 million in senior bank debt, issued under CBNA's Global Note Program, now maturing within one year, partially offset by a reduction of \$601 million in short-term FHLB advances.

Our advances, lines of credit, and letters of credit from the FHLB are collateralized by pledged mortgages and securities at least sufficient to satisfy the collateral maintenance level established by the FHLB. The utilized borrowing capacity for FHLB advances and letters of credit was \$13.8 billion and \$9.4 billion at September 30, 2018 and December 31, 2017, respectively. Our available FHLB borrowing capacity was \$3.7 billion and \$8.0 billion at September 30, 2018 and December 31, 2017, respectively. We can also borrow from the FRB discount window to

meet short-term liquidity requirements. Collateral, including certain loans, is pledged to support this borrowing capacity. At September 30, 2018, our unused secured borrowing capacity was approximately \$36.3 billion, which included unencumbered securities, FHLB borrowing capacity, and FRB discount window capacity.

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

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

	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,		As of and for the Year Ended December 31, 2017	
	2018	2017	2018	2017	2017	
(dollars in millions)						
Weighted-average interest rate at period-end: ⁽¹⁾						
Federal funds purchased and securities sold under agreements to repurchase	—	%	—	%	—	% 0.74 %
Other short-term borrowed funds	2.41	1.47	2.41	1.47	1.72	
Maximum amount outstanding at any month-end during the period:						
Federal funds purchased and securities sold under agreements to repurchase ⁽²⁾	\$382	\$724	\$1,045	\$1,174	\$1,174	
Other short-term borrowed funds	2,502	1,755	2,502	3,508	3,508	
Average amount outstanding during the period:						
Federal funds purchased and securities sold under agreements to repurchase ⁽²⁾	\$643	\$733	\$598	\$807	\$776	
Other short-term borrowed funds	2,239	1,624	1,802	2,283	2,321	
Weighted-average interest rate during the period: ⁽¹⁾						
Federal funds purchased and securities sold under agreements to repurchase	0.91 %	0.47 %	0.76 %	0.34 %	0.36 %	%
Other short-term borrowed funds	2.45	1.48	2.38	1.22	1.32	

⁽¹⁾ Rates exclude certain hedging costs.

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

Long-term borrowed funds

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

(in millions)	September 30, 2018	December 31, 2017
Parent Company:		
2.375% fixed-rate senior unsecured debt, due 2021	\$349	\$349
4.150% fixed-rate subordinated debt, due 2022	348	348
5.158% fixed-to-floating rate callable subordinated debt, due 2023 ⁽¹⁾	—	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
Banking Subsidiaries:		
2.450% senior unsecured notes, due 2019 ⁽²⁾	742	743
2.500% senior unsecured notes, due 2019 ⁽²⁾ ⁽³⁾	—	741
2.250% senior unsecured notes, due 2020 ⁽²⁾	687	692
Floating-rate senior unsecured notes, due 2020 ⁽²⁾	300	299
Floating-rate senior unsecured notes, due 2020 ⁽²⁾	250	249
2.200% senior unsecured notes, due 2020 ⁽²⁾	499	498
2.250% senior unsecured notes, due 2020 ⁽²⁾	731	742
2.550% senior unsecured notes, due 2021 ⁽²⁾	951	964
Floating-rate senior unsecured notes, due 2022 ⁽²⁾	249	249

2.650% senior unsecured notes, due 2022 ⁽²⁾	478	491
3.700% senior unsecured notes, due 2023 ⁽²⁾	492	—
Floating-rate senior unsecured notes, due 2023 ⁽²⁾	249	—
Federal Home Loan Bank advances due through 2038	8,012	3,761
Other	12	16
Total long-term borrowed funds	\$15,639	\$11,765

(1) Redeemed on June 29, 2018.

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

(3) Reclassified to short-term borrowed funds.

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

Long-term borrowed funds of \$15.6 billion as of September 30, 2018 increased \$3.9 billion from December 31, 2017, reflecting an increase of \$4.3 billion in long-term FHLB borrowings, partially offset by the redemption of \$333 million of Parent Company subordinated debt.

The Parent Company's long-term borrowed funds as of September 30, 2018 and December 31, 2017 included principal balances of \$2.0 billion and \$2.3 billion, respectively, with unamortized deferred issuance costs and/or discounts of (\$5) million in each period. The banking subsidiaries' long-term borrowed funds as of September 30, 2018 and December 31, 2017 included principal balances of \$13.8 billion and \$9.5 billion, respectively, with unamortized deferred issuance costs and/or discounts of (\$17) million and (\$19) million, respectively, and hedging basis adjustments of (\$105) million and (\$63) million, respectively. See Note 9 "Derivatives" for further information about our hedging of certain long-term borrowed funds.

CAPITAL AND REGULATORY MATTERS

As a bank holding company and a financial holding company, we are subject to regulation and supervision by the FRB. Our primary subsidiaries are our two insured depository institutions, CBNA, a national banking association whose primary federal regulator is the OCC, and CBPA, a Pennsylvania-chartered savings bank regulated by the Department of Banking of the Commonwealth of Pennsylvania and supervised by the FDIC, its primary federal regulator. Our regulation and supervision continues to evolve as the legal and regulatory frameworks governing our operations continue to change. The current operating environment reflects heightened regulatory expectations around many regulations including consumer compliance, the Bank Secrecy Act, anti-money laundering compliance, and increased internal audit activities. For more information, see "Regulation and Supervision" in Part I, Item 1 — Business included in our Annual Report on Form 10-K for the year ended December 31, 2017.

On July 3, 2018, we received regulatory approval from the OCC to consolidate our banking subsidiaries via a merger of CBPA into CBNA. We intend to consolidate our banking subsidiaries in January 2019 to streamline governance and enterprise risk management, improve the risk profile and gain operational efficiencies.

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. We publish estimated DFAST results under the supervisory severely adverse scenario on our regulatory filings and disclosures page on our Investor Relations website at <http://investor.citizensbank.com>. On April 5, 2018, we submitted our 2018 Capital Plan, Capital Policy and annual stress test results to the FRB as part of the 2018 CCAR process. On June 28, 2018, the FRB announced that it did not object to our 2018 Capital Plan including our proposed capital actions for the period beginning July 1, 2018 and ending June 30, 2019. Our 2018 Capital Plan includes an increase in our quarterly common dividend from \$0.22 to \$0.27 per share in third quarter 2018, with the potential to raise quarterly common dividends to \$0.32 per share beginning in 2019, and common share repurchases of up to \$1.02 billion through second quarter 2019. The timing and exact amount of future dividends and share repurchases will depend on various factors, including capital position, financial performance and market conditions.

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 2018 annual stress tests to the OCC on April 5, 2018 and published, on our Investor Relations website referenced above, a summary of those results along with the stress test results of the Parent Company on June 21, 2018. Given the amendments to the Dodd-Frank Act enacted on May 24, 2018 by the Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies have announced that they would extend the deadlines for DFAST stress testing and reporting requirements for depository institutions with total consolidated assets of less than \$100 billion, including CBPA, until November 25, 2019, at which point a statutory exemption for those depository institutions will be in effect.

Similarly, we are required to submit the results of our mid-cycle company-run DFAST stress tests by October 5th of each year to the FRB and disclose the summary results of our internally developed stress tests under the internally

developed severely adverse scenario between October 5th and November 4th. We submitted the results of our 2018 mid-cycle stress test to the FRB and disclosed a summary of the results on October 5, 2018. We publish these company-run estimated impacts of stress on our Investor Relations website referenced above.

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

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 for certain provisions. In November 2017, the federal banking regulators issued a final rule that extended the 2017 transitions for certain U.S. Basel III capital rules for non-advanced approaches banking organizations, such as us. Effective January 1, 2018, the final rule retains the 2017 U.S. Basel III transitional treatment of certain deferred tax assets ("DTAs"), mortgage servicing assets, significant investments in unconsolidated financial institutions and minority interests. As a result, effective January 1, 2018, our mortgage servicing assets retain their 2017 risk weight treatment until the federal banking regulators revise the extended transitional treatment under the November 2017 final rule, which may occur in connection with the finalization of the related September 2017 proposal to simplify the capital treatment of certain DTAs, mortgage servicing assets, significant investments in unconsolidated financial institutions and minority interests. The current U.S. Basel III rules also impose a 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 2018 increased to 1.875% on January 1, 2018. 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.

The table below presents our actual regulatory capital ratios under the U.S. Basel III Standardized rules:

(in millions, except ratio data)	Actual	Required	
	Amount	Ratio	Minimum plus Required CCB for Non-Leverage Ratios ⁽⁵⁾⁽⁶⁾
September 30, 2018			
Common equity tier 1 capital ⁽¹⁾	\$14,435	10.8%	6.4%
Tier 1 capital ⁽²⁾	14,978	11.2	7.9
Total capital ⁽³⁾	17,810	13.4	9.9
Tier 1 leverage ⁽⁴⁾	14,978	9.9	4.0
Risk-weighted assets	133,249		
Quarterly adjusted average assets	150,717		
December 31, 2017			
Common equity tier 1 capital ⁽¹⁾	\$14,309	11.2%	5.8%
Tier 1 capital ⁽²⁾	14,556	11.4	7.3
Total capital ⁽³⁾	17,781	13.9	9.3
Tier 1 leverage ⁽⁴⁾	14,556	10.0	4.0
Risk-weighted assets	127,692		
Quarterly adjusted average assets	145,601		

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

⁽²⁾ "Tier 1 capital ratio" is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

- (3) “Total capital ratio” is total capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
- (4) “Tier 1 leverage ratio” is tier 1 capital divided by quarterly average total assets as defined under U.S. Basel III Standardized approach.
- (5) Required “Minimum Capital ratio” for 2018 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%.
- (6) “Minimum Capital ratio” includes capital conservation buffer for Transitional Basel III of 1.875% for 2018 and 1.250% for 2017; N/A to Tier 1 leverage.

At September 30, 2018, our CET1 capital, tier 1 capital and total capital ratios were 10.8%, 11.2% and 13.4%, respectively, as compared with 11.2%, 11.4%, and 13.9% respectively, as of December 31, 2017. The CET1 capital ratio decreased as \$5.6 billion of risk-weighted asset growth, including \$1.5 billion from FAMC, goodwill and intangible growth attributable to the FAMC acquisition, and Capital Plan actions, which included common dividends of \$344 million, preferred dividends of \$14 million and repurchase of \$725 million of our outstanding common stock, was partially offset by net income for the nine months ended September 30, 2018. The tier 1 capital ratio decreased due to the changes in the CET1 capital ratio, partially offset by the issuance of preferred stock. The total capital ratio decreased due to the changes in CET1 and tier 1 capital ratios, the June 2018 redemption of subordinated debt and an increase in non-qualifying subordinated debt. At September 30, 2018, our CET1 capital, tier 1 capital

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

and total capital ratios were 383 basis points, 274 basis points and 287 basis points, respectively, above their regulatory minimums plus the fully phased-in capital conservation buffer. All ratios remained well above the U.S. Basel III minima.

Regulatory Capital Ratios and Capital Composition

CET1 capital under U.S. Basel III Standardized rules totaled \$14.4 billion at September 30, 2018, and increased \$126 million from \$14.3 billion at December 31, 2017, as net income for the nine months ended September 30, 2018 was partially offset by the impact of common share repurchases, dividends and an increase in goodwill and intangibles related to the FAMC acquisition. Tier 1 capital at September 30, 2018 totaled \$15.0 billion, reflecting a \$422 million increase from \$14.6 billion at December 31, 2017, driven by the changes in CET1 capital and the issuance of preferred stock. At September 30, 2018, we had \$543 million of fixed-to-floating non-cumulative perpetual preferred stock issued and outstanding, an increase of \$296 million from \$247 million at December 31, 2017, given the second quarter 2018 issuance of 300,000 shares of Series B Preferred Stock that qualified as additional tier 1 capital. Total capital of \$17.8 billion at September 30, 2018, increased \$29 million from December 31, 2017, driven by the changes in CET1 and tier 1 capital, partially offset by the June 2018 redemption of subordinated debt and an increase in non-qualifying subordinated debt.

Risk-weighted assets ("RWA") totaled \$133.2 billion at September 30, 2018, based on U.S. Basel III Standardized rules, up \$5.6 billion from December 31, 2017. This increase was driven by growth in commercial loans and commitments, as well as growth in retail loans including residential mortgages, education and unsecured retail portfolios. The increase in RWA was also driven by FAMC which resulted in higher mortgage servicing rights and loans held for sale. These increases were partially offset by run-off in the auto and home equity portfolios.

As of September 30, 2018, the tier 1 leverage ratio was 9.9%, a decrease of six basis points from 10.0% at December 31, 2017 due to a \$5.1 billion increase in quarterly adjusted average assets, offset by the increase in tier 1 capital.

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

(in millions)	September 30, 2018	December 31, 2017
Total common stockholders' equity	\$19,733	\$20,023
Exclusions: ⁽¹⁾		
Net unrealized losses recorded in accumulated other comprehensive income, net of tax:		
Debt and equity securities	672	236
Derivatives	215	143
Unamortized net periodic benefit costs	431	441
Deductions:		
Goodwill	(6,946	) (6,887
Deferred tax liability associated with goodwill	363	355
Other intangible assets	(33	) (2
Total common equity tier 1	14,435	14,309
Qualifying preferred stock	543	247
Total tier 1 capital	14,978	14,556
Qualifying subordinated debt ⁽²⁾	1,499	1,901
Allowance for loan and lease losses	1,242	1,236
Allowance for credit losses for off-balance sheet exposure	91	88
Total capital	\$17,810	\$17,781

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

⁽²⁾ As of September 30, 2018 and December 31, 2017, the amount of non-qualifying subordinated debt excluded from regulatory capital was \$139 million and \$70 million respectively.

Capital Adequacy Process

Our assessment of capital adequacy begins with our risk appetite and risk management framework. This framework provides for the identification, measurement and management of material risks. Capital requirements are determined for actual and forecasted risk portfolios using applicable regulatory capital methodologies. The assessment also considers the possible impacts of approved and proposed changes to regulatory capital requirements. Key analytical frameworks including stress testing, which enable the assessment of capital adequacy versus

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

unexpected loss under a variety of stress scenarios, supplement our base case forecast. A governance framework supports our capital planning process, including capital management policies and procedures that document capital adequacy metrics and limits, as well as our Capital Contingency Plan and the active engagement of both the legal entity boards and senior management in oversight and decision making.

Forward-looking assessments of capital adequacy feed development of a single capital plan covering us and our banking subsidiaries that is submitted to the FRB and to the bank regulators. We prepare this plan in full compliance with the FRB's Capital Plan Rule and we participate annually in the FRB's horizontal capital review ("HCR"), which is the FRB's assessment of specific capital planning areas as part of their normal supervisory process. In addition to the stress test requirements under CCAR, we also perform semi-annual company-run stress tests required by the Dodd-Frank Act.

All distributions proposed under our Capital Plan are subject to consideration and approval by our Board of Directors prior to execution. The timing and exact amount of future dividends and share repurchases will depend on various factors, including our capital position, financial performance and market conditions.

Capital Transactions

The following capital actions were completed by the Company during the nine months ended September 30, 2018:

- Declared and paid quarterly common stock dividends of \$0.22 per share for first and second quarter of 2018, and \$0.27 per share for third quarter 2018, aggregating to dividends of \$344 million;

- Declared semi-annual dividends of \$27.50 per share on the 5.500% fixed-to-floating rate non-cumulative perpetual Series A Preferred Stock, aggregating to dividends of \$14 million;

- Issued \$300 million, or 300,000 shares, of 6.000% fixed-to-floating rate non-cumulative perpetual Series B Preferred Stock (the "Series B Preferred Stock"), par value of \$25.00 per share with a liquidation preference of \$1,000 per share, with net proceeds of \$296 million;

- Repurchased \$725 million of our outstanding common stock; and

- Redeemed \$333 million of our 5.158% fixed-to-floating rate callable subordinated debt due June 29, 2023.

Banking Subsidiaries' Capital

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

	September 30,		December 31,	
	2018		2017	
(dollars in millions, except ratio data)	Amount	Ratio	Amount	Ratio
Citizens Bank, National Association				
Common equity tier 1 capital ⁽¹⁾	\$11,888	10.7 %	\$11,917	11.4 %
Tier 1 capital ⁽²⁾	11,888	10.7	11,917	11.4
Total capital ⁽³⁾	14,131	12.8	14,127	13.5
Tier 1 leverage ⁽⁴⁾	11,888	10.0	11,917	10.3
Risk-weighted assets	110,617		104,767	
Quarterly adjusted average assets	119,433		115,291	
Citizens Bank of Pennsylvania				
Common equity tier 1 capital ⁽¹⁾	\$3,000	13.0 %	\$3,045	12.9 %
Tier 1 capital ⁽²⁾	3,000	13.0	3,045	12.9
Total capital ⁽³⁾	3,215	13.9	3,284	13.9
Tier 1 leverage ⁽⁴⁾	3,000	8.7	3,045	8.7
Risk-weighted assets	23,139		23,659	
Quarterly adjusted average assets	34,284		34,821	

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

(2) “Tier 1 capital ratio” is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

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

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

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

CBNA CET1 capital totaled \$11.9 billion at September 30, 2018, down \$29 million from \$11.9 billion at December 31, 2017, reflecting the impact of dividend payments and an increase in goodwill and intangibles related to the FAMC acquisition, partially offset by net income. At September 30, 2018, CBNA held minimal additional tier 1 capital. Total capital was \$14.1 billion at September 30, 2018, an increase of \$4 million from \$14.1 billion at December 31, 2017, primarily driven by the increase in the ACL, partially offset by the decrease in CET1 capital. CBNA had RWA of \$110.6 billion at September 30, 2018, an increase of \$5.9 billion from December 31, 2017, driven by growth in commercial loans and commitments, as well as growth in retail loans, including residential mortgages, education and unsecured retail portfolios. The increase in RWA was also driven by FAMC which resulted in higher mortgage servicing rights and loans held for sale. These increases were partially offset by run-off in the auto and home equity portfolios.

As of September 30, 2018, the CBNA tier 1 leverage ratio decreased 39 basis points to 10.0% from 10.3% as of December 31, 2017, primarily driven by a \$4.1 billion increase in quarterly adjusted average assets that drove a 36 basis point decline in the ratio.

CBPA CET1 capital totaled \$3.0 billion at September 30, 2018, a decrease of \$45 million from December 31, 2017, as dividend payments exceeded net income. Total capital was \$3.2 billion at September 30, 2018, a decrease of \$69 million from December 31, 2017, driven by the decrease in CET1 capital, and a decrease in the ACL.

CBPA had RWA of \$23.1 billion at September 30, 2018, a decrease of \$520 million from December 31, 2017, driven by decreases in the auto, education and home equity portfolios. These decreases were partially offset by an increase in commercial loans.

As of September 30, 2018, the CBPA tier 1 leverage ratio was stable with December 31, 2017 at 8.7%.

LIQUIDITY

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

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

Parent Company Liquidity

Our Parent Company's primary sources of cash are (i) dividends and interest received from our banking subsidiaries as a result of investing in bank equity and subordinated debt; and (ii) externally issued senior and subordinated debt.

Uses of cash include the following: (i) routine cash flow requirements as a bank holding company, including periodic share repurchases and payments of dividends, interest and expenses; (ii) needs of subsidiaries, including banking subsidiaries, for additional equity and, as required, their needs for debt financing; and (iii) support for extraordinary funding requirements when necessary. To the extent that the Parent Company has relied on wholesale borrowings, uses also include payments of related principal and interest.

On October 25, 2018, the Parent Company issued \$300 million, or 300,000 shares, of 6.375% fixed-to-floating rate non-cumulative perpetual Series C Preferred Stock, par value of \$25.00 per share with a liquidation preference of \$1,000 per share. For further discussion, see Note 11 "Stockholders' Equity" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 - Financial Statements, included in this report.

On June 29, 2018, the Parent Company redeemed \$333 million of its 5.158% fixed-to-floating rate callable subordinated debt due June 29, 2023.

On May 24, 2018, the Parent Company issued \$300 million, or 300,000 shares, of 6.000% fixed-to-floating rate non-cumulative perpetual Series B Preferred Stock, par value of \$25.00 per share with a liquidation preference of \$1,000 per share. For further discussion, see Note 11 "Stockholders' Equity" to our unaudited interim Consolidated

Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

During the three months ended September 30, 2018 and 2017, the Parent Company declared and paid dividends on common stock of \$129 million and \$90 million, respectively, and declared dividends on preferred stock

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

of \$7 million for both periods. During the nine months ended September 30, 2018 and 2017, the Parent Company declared and paid dividends on common stock of \$344 million and \$233 million, respectively, and declared semi-annual preferred dividends of \$14 million for both periods.

During three months ended September 30, 2018 and 2017, the Parent Company repurchased \$400 million and \$225 million of its outstanding common stock, respectively. During the nine months ended September 30, 2018 and 2017, the Parent Company repurchased \$725 million and \$485 million of its outstanding common stock, respectively.

Our Parent Company's cash and cash equivalents represent a source of liquidity that can be used to meet various needs and totaled \$636 million as of September 30, 2018 compared with \$443 million as of December 31, 2017. The Parent Company's double-leverage ratio (the combined equity investment in Parent Company subsidiaries divided by Parent Company equity) is a measure of reliance on equity cash flows from subsidiaries to fund Parent Company obligations. At September 30, 2018, the Parent Company's double-leverage ratio was 100.4%.

Banking Subsidiaries' Liquidity

In the ordinary course of business, the liquidity of CBNA and CBPA is managed by matching sources and uses of cash. The primary sources of bank liquidity include (i) deposits from our consumer and commercial customers; (ii) payments of principal and interest on loans and debt securities; and (iii) wholesale borrowings, as needed, and as described under "—Liquidity Risk Management and Governance." The primary uses of bank liquidity include (i) withdrawals and maturities of deposits; (ii) payment of interest on deposits; (iii) funding of loans and related commitments; and (iv) funding of securities purchases. To the extent that the banks have relied on wholesale borrowings, uses also include payments of related principal and interest.

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

On March 29, 2018, CBNA issued \$750 million in five-year senior notes, consisting of \$500 million in fixed-rate notes and \$250 million in floating-rate notes.

Liquidity Risk

We define liquidity risk as the risk that an entity will be unable to meet its payment obligations in a timely manner, at a reasonable cost. Liquidity risk can arise due to contingent liquidity risk and/or funding liquidity risk.

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

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

Factors Affecting Liquidity

Given the composition of their assets and borrowing sources, contingent liquidity risk at both CBNA and CBPA would be materially affected by such events as deterioration of financing markets for high-quality securities (e.g., mortgage-backed securities and other instruments issued by the GNMA, FNMA and the FHLMC), by any inability of the FHLBs to provide collateralized advances, and/or by a refusal of the FRB to act as lender of last resort in systemic stress.

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

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

An additional variable affecting our access, and the access of our banking subsidiaries, to unsecured wholesale market funds and to large denomination (i.e., uninsured) customer deposits is the credit ratings assigned by such agencies as Moody's, Standard & Poor's and Fitch. The following table presents our credit ratings:

September 30, 2018

	Moody's	Standard and Poor's	Fitch
Citizens Financial Group, Inc.:			
Long-term issuer	NR	BBB+	BBB+
Short-term issuer	NR	A-2	F2
Subordinated debt	NR	BBB	BBB
Preferred Stock	NR	BB+	BB-
Citizens Bank, National Association:			
Long-term issuer	Baa1	A-	BBB+
Short-term issuer	NR	A-2	F2
Long-term deposits	A1	NR	A-
Short-term deposits	P-1	NR	F2
Citizens Bank of Pennsylvania:			
Long-term issuer	Baa1	A-	BBB+
Short-term issuer	NR	A-2	F2
Long-term deposits	A1	NR	A-
Short-term deposits	P-1	NR	F2

NR = Not rated

Changes in our public credit ratings could affect both the cost and availability of our wholesale funding. As a result and in order to maintain a conservative funding profile, our banking subsidiaries continue to minimize reliance on unsecured wholesale funding. At September 30, 2018, our wholesale funding consisted primarily of secured borrowings from the FHLBs collateralized by high-quality residential mortgages, and term debt issued by the Parent Company and CBNA.

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

The LCR was developed to ensure banks have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. In September 2014, the U.S. federal banking regulators published the final rule to implement the LCR. This rule also introduced a modified version of the LCR in the U.S., which generally applies to bank holding companies not active internationally (institutions with less than \$10 billion of on-balance sheet foreign exposure), with total assets of greater than \$50 billion but less than \$250 billion. Under this definition we are designated as a modified LCR financial institution and were compliant beginning in January 2017. Achieving sustainable LCR compliance may require changes in the size and/or composition of our investment portfolio, the configuration of our discretionary wholesale funding portfolio, and our average cash position. We remain fully compliant with the LCR as of September 30, 2018.

The U.S. federal bank regulatory agencies have issued a notice of proposed rulemaking to implement the NSFR, along with a modified version with similar parameters as the LCR, that would designate us as a modified NSFR financial institution. The NSFR is one of the two Basel III-based liquidity measures, distinctly separate from the LCR, and is designed to promote medium- and long-term stable funding of the assets and off-balance sheet activities of banks and bank holding companies over a one-year time horizon. Generally consistent with the Basel Committee's framework, under the proposed rule banking organizations would be required to hold an amount of available stable funding ("ASF") over a one-year time horizon that equals or exceeds the institution's amount of required stable funding ("RSF"), with the ASF representing the numerator and the RSF representing the denominator of the NSFR. The banking organizations subject to the modified NSFR would multiply the RSF amount by 70%, such that the RSF amount required for these

companies would be required to maintain ASF of at least 70% of its RSF. Generally, these modified NSFR companies are defined as institutions with total assets of greater than \$50 billion but less than \$250 billion, and less than \$10 billion of on-balance sheet foreign exposure. The proposed rule includes detailed descriptions of the items that would comprise ASF and RSF and standardized factors that would apply to ASF and RSF items, and would require any institution whose applicable modified NSFR falls under 100% to notify the appropriate federal regulator and develop a remediation plan.

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

We are currently evaluating the impact of the U.S. federal bank regulatory agencies' NSFR framework. If ultimately adopted as currently proposed, the implementation of the NSFR could impact our liquidity and funding requirements and practices in the future.

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

Liquidity Risk Management and Governance

Liquidity risk is measured and managed by the Funding and Liquidity unit within our Treasury unit in accordance with policy guidelines promulgated by our Board and the Asset and Liability Management Committee. In managing liquidity risk, the Funding and Liquidity unit delivers regular and comprehensive reporting, including current levels versus threshold limits for a broad set of liquidity metrics and early warning indicators, explanatory commentary relating to emerging risk trends and, as appropriate, recommended remedial strategies.

The mission of our Funding and Liquidity unit is to deliver and otherwise maintain prudent levels of operating liquidity (to support expected and projected funding requirements), and contingent liquidity (to support unexpected funding requirements resulting from idiosyncratic, systemic, and combination stress events, and regulatory liquidity requirements). Additionally, we will deliver this liquidity from stable funding sources, in a timely manner and at a reasonable cost, without significant adverse consequences.

We seek to accomplish this mission by funding loans with stable deposits; by prudently controlling dependence on wholesale funding, particularly short-term unsecured funding; and by maintaining ample available liquidity, including a contingent liquidity buffer of unencumbered high-quality loans and securities. As of September 30, 2018:

Core deposits continued to be our primary source of funding and our consolidated period end loan-to-deposit ratio was 98.0%;

Our cash position (which is defined as cash balance held at the FRB) totaled \$3.0 billion;

Contingent liquidity was \$25.7 billion, consisting of unencumbered high-quality liquid assets of \$19.0 billion, unused FHLB capacity of \$3.7 billion, and our cash position (defined above) of \$3.0 billion. Asset liquidity (a component of contingent liquidity) was \$22.0 billion consisting of our cash position of \$3.0 billion and unencumbered high-quality and liquid securities of \$19.0 billion; and

Available discount window capacity, defined as available total borrowing capacity from the FRB based on identified collateral, is secured by non-mortgage commercial and retail loans and totaled \$13.6 billion. Use of this borrowing capacity would be considered only during exigent circumstances.

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

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

Liquidity stress sources, including idiosyncratic, systemic and combined stresses, in addition to evolving regulatory requirements such as the LCR and the NSFR; and

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

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

Cash flows from operating activities contributed \$1.2 billion in the first nine months of 2018, primarily driven by net income of \$1.3 billion. Net cash used by investing activities was \$5.1 billion, primarily reflecting a net increase in loans and leases of \$4.3 billion, purchases of debt securities available for sale of \$3.1 billion and the acquisition of FAMC, partially offset by proceeds from maturities, paydowns and sales of debt securities available for sale of \$2.9 billion. Cash provided by financing activities was \$4.8 billion, driven by proceeds from issuance of long-term borrowed funds of \$17.5 billion, a net increase in deposits of \$2.0 billion and net proceeds from issuance of preferred stock of \$296 million, partially offset by repayments of long-term FHLB advances of \$10.0 billion and a net decrease

in other short-term borrowed funds of \$3.1 billion. The \$17.5 billion proceeds from issuances of long-

42

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

term borrowed funds included \$750 million from issuances of medium-term debt and \$16.8 billion in FHLB advances. These activities resulted in a cumulative increase in cash and cash equivalents of \$959 million, which when added to the cash and cash equivalents balance of \$3.0 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of \$4.0 billion as of September 30, 2018.

Cash flows from operating activities contributed \$1.5 billion in the first nine months of 2017, driven by net income of \$986 million and a net decrease in loans held for sale activity of \$141 million. Net cash used by investing activities was \$3.9 billion, primarily reflecting purchases in the securities available for sale portfolio of \$4.1 billion and a net increase in loans and leases of \$3.5 billion, partially offset by proceeds from maturities, paydowns and sales of securities available for sale of \$3.5 billion. Cash provided by financing activities was \$890 million, driven by proceeds from issuance of long-term borrowed funds of \$12.1 billion and a net increase in deposits of \$3.4 billion, partially offset by a net decrease in other short-term borrowed funds of \$1.7 billion, and repayments of long-term FHLB advances of \$11.5 billion. The \$12.1 billion proceeds included \$2.5 billion from issuances of medium-term debt and \$9.6 billion in FHLB advances. These activities resulted in a cumulative decrease in cash and cash equivalents of \$1.6 billion, which, when subtracted from the cash and cash equivalents balance of \$3.7 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of \$2.1 billion as of September 30, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

The following table presents our outstanding off-balance sheet arrangements. See Note 12 "Commitments and Contingencies" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

(in millions)	September 30, 2018	December 31, 2017	Change	Percent
Undrawn commitments to extend credit	\$66,729	\$62,959	\$3,770	6 %
Financial standby letters of credit	1,934	2,036	(102)	(5)
Performance letters of credit	131	47	84	179
Commercial letters of credit	74	53	21	40
Marketing rights	37	41	(4)	(10)
Risk participation agreements	14	16	(2)	(13)
Residential mortgage loans sold with recourse	6	7	(1)	(14)
Total	\$68,925	\$65,159	\$3,766	6 %

CRITICAL ACCOUNTING ESTIMATES

Our unaudited interim Consolidated Financial Statements, which are included in this report, are prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to establish accounting policies and make estimates that affect amounts reported in our audited Consolidated Financial Statements. An accounting estimate requires assumptions and judgments about uncertain matters that could have a material effect on our unaudited interim Consolidated Financial Statements. Estimates are made using facts and circumstances known at a point in time. Changes in those facts and circumstances could produce results substantially different from those estimates. Our most significant accounting policies and estimates are related to the ALLL, fair value, and income taxes. For additional information regarding these accounting policies and estimates and their related application, see "—Critical Accounting Estimates" to the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017. No material changes were made to these significant accounting policies or estimates during the nine months ended September 30, 2018, except the addition to the fair value policy below, related to the FAMC acquisition and our election to carry the MSR's acquired from FAMC at fair value.

Fair Value

MSR's do not trade in an active market with readily observable prices. MSR's are classified as Level 3 since the valuation methodology utilizes significant unobservable inputs. The fair value was calculated using a discounted cash flow model which used assumptions, including weighted-average life, prepayment assumptions and weighted-average option adjusted spread. The underlying assumptions and estimated values are corroborated by values received from

independent third parties based on their review of the servicing portfolio, and comparisons to market transactions. In addition, the MSR Policy is approved by the Asset Liability Committee. Refer to Note 5 “Mortgage Banking” for more information.

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

RISK GOVERNANCE

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

To enable our Board to carry out its objectives, it has delegated authority for risk management activities, as well as governance and oversight of those activities, to a number of Board and executive management level risk committees. The Executive Risk Committee ("ERC"), chaired by the Chief Risk Officer, is responsible for oversight of risk across the enterprise and actively considers our inherent material risks, analyzes our overall risk profile and seeks confirmation that the risks are being appropriately identified, assessed and mitigated. Reporting to the ERC are the following additional committees covering specific areas of risk: Compliance and Operational Risk Committee, Corporate Model Risk Committee, Citizens Credit Policy Committee, Asset Liability Committee, Business Initiatives Review Committee, Strategic Transactions Committee and the Conduct and Ethics Oversight Committee.

There have been no significant changes in our risk governance practices, risk framework, risk appetite, or credit risk as described in "—Risk Governance" to the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017.

MARKET RISK

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

Non-Trading Risk

We are exposed to market risk as a result of non-trading banking activities. This market risk is substantially composed of interest rate risk, as we have no direct currency or commodity risk and de minimis equity risk. We also have market risk related to capital markets loan originations, as well as the valuation of our mortgage servicing rights.

Interest Rate Risk

Interest rate risk emerges from the balance sheet after the aggregation of our assets, liabilities and equity. We refer to this non-trading risk embedded in the balance sheet as "structural interest rate risk" or "interest rate risk in the banking book."

A major source of structural interest rate risk is a difference in the repricing of assets, on the one hand, and liabilities and equity, on the other. First, there are differences in the timing and drivers of rate changes reflecting the maturity and/or repricing of assets and liabilities. For example, the rate earned on a commercial loan may reprice monthly with changes in LIBOR while the rate paid on debt or certificates of deposit may be fixed for a longer period. There are differences in the drivers of rate changes as well. Loans may be tied to a specific index rate such as LIBOR or Prime, while deposits may be only loosely correlated with LIBOR and depend on competitive demand. Due to these basis differences, net interest income is sensitive to changes in spreads between certain indices or repricing rates.

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

A primary source of our structural interest rate risk relates to faster repricing of floating rate loans relative to the retail deposit funding. This source of asset sensitivity is more biased to the short end of the yield curve. For the past eight years with the Federal Funds rate near zero, this risk had been asymmetrical with significantly more upside benefit than potential exposure. As interest rates have begun to rise, the risk position has become more symmetrical as rates can decline further before becoming floored at zero.

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

The secondary source of our interest rate risk is driven by longer term rates comprising the rollover or reinvestment risk on fixed rate loans as well as the prepayment risk on mortgage related loans and securities funded by non-rate sensitive deposits and equity.

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

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

Key assumptions in this simulation analysis relate to the behavior of interest rates and spreads, the changes in product balances and the behavior of loan and deposit clients in different rate environments. The most material of these behavioral assumptions relate to the repricing characteristics and balance fluctuations of deposits with indeterminate (i.e., non-contractual) maturities as well as the pace of mortgage prepayments. Assessments are periodically made by running sensitivity analysis of the impact of key assumptions. The results of these analyses are reported to the Asset Liability Committee.

As the future path of interest rates cannot be known in advance, we use simulation analysis to project net interest income under various interest rate scenarios including a "most likely" (implied forward) scenario as well as a variety of deliberately extreme and perhaps unlikely scenarios. These scenarios may assume gradual ramping of the overall level of interest rates, immediate shocks to the level of rates and various yield curve twists in which movements in short- or long-term rates predominate. Generally, projected net interest income in any interest rate scenario is compared to net interest income in a base case where market forward rates are realized.

The table below reports net interest income exposures against a variety of interest rate scenarios. Our policies involve measuring exposures as a percentage change in net interest income over the next year due to either instantaneous or gradual parallel changes in rates relative to the market implied forward yield curve. With rates rising from historically low levels due to Federal Open Market Committee rate increases, exposure to falling rates has increased. As the following table illustrates, our balance sheet is asset-sensitive: net interest income would benefit from an increase in interest rates. Exposure to a decline in interest rates is within limit. While an instantaneous and severe shift in interest rates was used in this analysis, we believe that any actual shift in interest rates would likely be more gradual and would therefore have a more modest impact as demonstrated in the following table.

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

Basis points	Estimated % Change in Net Interest Income over 12 Months	
	September 30, 2018	December 31, 2017
Instantaneous Change in Interest Rates		
+200	9.6 %	9.6 %
+100	4.8	4.9
-100	(4.1)	(5.9)
Gradual Change in Interest Rates		

+200	5.2	5.1
+100	2.7	2.7
-100	(2.1)	(1.8)

Asset sensitivity against a 200 basis point gradual increase in rates was 5.2% at September 30, 2018, a slight increase from 5.1% at December 31, 2017. As the Fed continues to normalize rates given improved economic growth and data, the upward trend in rates has benefited our net interest income and net interest margin as a result of this asset sensitivity. The risk position can be affected by changes in interest rates which impact the repricing sensitivity or beta of the deposit base as well as the cash flows on prepayable assets. The risk position is managed

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

within our risk limits through occasional adjustments to securities investments, interest rate swaps and mix of funding. We use a valuation measure of exposure to structural interest rate risk, Economic Value of Equity ("EVE"), as a supplement to net interest income simulations. EVE complements net interest income simulation analysis as it estimates risk exposure over a long-term horizon. EVE measures the extent to which the economic value of assets, liabilities and off-balance sheet instruments may change in response to fluctuations in interest rates. This analysis is highly dependent upon assumptions applied to assets and liabilities with non-contractual maturities. The change in value is expressed as a percentage of regulatory capital.

Capital Markets

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

Mortgage Servicing Rights

We have market risk associated with the value of residential mortgage servicing right assets ("MSRs"), which are impacted by various types of inherent risks, including risks related to duration, basis, convexity, volatility and yield curve. We have elected to account for the MSRs acquired from FAMC at fair value while maintaining a lower of cost or market approach on our MSRs held before the FAMC acquisition because the MSRs acquired from FAMC are a separate class of MSRs.

As part of our overall risk management strategy relative to the fair market value of the MSRs acquired from FAMC, we enter into various free-standing derivatives, such as interest rate swaps, interest rate swaptions, interest rate futures, and forward contracts to purchase mortgage-backed securities to economically hedge the changes in fair value. As of September 30, 2018, the fair value of the MSRs acquired from FAMC was \$612 million and the total notional amount of related derivative contracts was \$3.4 billion. Gains and losses on MSRs and the related derivatives used for hedging are included in mortgage banking fees on the Consolidated Statements of Operations.

As of September 30, 2018 and December 31, 2017, our MSRs held before the FAMC acquisition had a book value of \$219 million and \$198 million, respectively, and were carried at the lower of cost or market. As of September 30, 2018 and December 31, 2017, these MSRs had a fair value of \$261 million and \$218 million, respectively, which exceeded the carrying value at those dates. Depending on the interest rate environment, hedges may be used to protect the market value of these MSRs.

As with our traded market risk based activities, earnings at risk excludes the impact of MSRs. MSRs are captured under our single price risk management framework that is used for calculating a management value at risk that is consistent with the definition used by banking regulators, as defined below.

Trading Risk

We are exposed to market risk primarily through client facilitation activities including derivatives and foreign exchange products as well as underwriting and market making activities. Exposure is created as a result of changes in interest rates and related basis spreads and volatility, foreign exchange rates, and credit spreads on a select range of interest rates, foreign exchange and secondary loan instruments. These trading activities are conducted through our two banking subsidiaries, CBNA and CBPA.

Client facilitation activities consist primarily of interest rate derivatives and foreign exchange contracts where we enter into offsetting trades with a separate counterparty or exchange to manage our market risk exposure. In addition to the aforementioned activities, we operate a secondary loan trading desk with the objective to meet secondary liquidity needs of our issuing clients' transactions and investor clients. We do not engage in any trading activities with the intent to benefit from short-term price differences.

We record interest rate derivatives and foreign exchange contracts as derivative assets and liabilities on our Consolidated Balance Sheets. Trading assets and liabilities are carried at fair value with income earned related to these activities included in net interest income. Changes in fair value of trading assets and liabilities are reflected in other

income, a component of noninterest income on the unaudited interim Consolidated Statements of Operations.

46

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

Market Risk Governance

The market risk limit setting process is established in line with the formal enterprise risk appetite process and policy. This appetite reflects the strategic and enterprise level articulation of opportunities for creating franchise value set to the boundaries of how much market risk to take. Dealing authorities represent the key control tool in the management of market risk that allows the cascading of the risk appetite throughout the enterprise. A dealing authority sets the operational scope and tolerances within which a business and/or trading desk is permitted to operate and this is reviewed at least annually. Dealing authorities are structured to accommodate the client facing trades and hedges needed to manage the risk profile. Primary responsibility for keeping within established tolerances resides with the business. Key risk indicators, including VaR, open foreign currency positions, and single name risk, are monitored on a daily basis and reported against tolerances consistent with our risk appetite and business strategy to relevant business line management and risk counterparts.

Market Risk Measurement

We use VaR as a statistical measure for estimating potential exposure of our traded market risk in normal market conditions. Our VaR framework for risk management and regulatory reporting is the same. Risk management VaR is based on a one day holding period to a 99% confidence level, whereas regulatory VaR is based on a ten day holding period to the same confidence level. Additional to VaR, non-statistical measurements for measuring risk are employed, such as sensitivity analysis, market value and stress testing.

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

VaR Overview

The market risk measurement model is based on historical simulation. The VaR measure estimates the extent of any fair value losses on trading positions that may occur due to broad market movements (General VaR) such as changes in the level of interest rates, foreign exchange rates, equity prices and commodity prices. It is calculated on the basis that current positions remain broadly unaltered over the course of a given holding period. It is assumed that markets are sufficiently liquid to allow the business to close its positions, if required, within this holding period. VaR's benefit is that it captures the historic correlations of a portfolio. Based on the composition of our "covered positions," we also use a standardized add-on approach for the loan trading desk's Specific Risk capital which estimates the extent of any losses that may occur from factors other than broad market movements. The General VaR approach is expressed in terms of a confidence level over the past 500 trading days. The internal VaR measure (used as the basis of the main VaR trading limits) is a 99% confidence level with a one day holding period, meaning that a loss greater than the VaR is expected to occur, on average, on only one day in 100 trading days (i.e., 1% of the time). Theoretically, there should be a loss event greater than VaR two to three times per year. The regulatory measure of VaR is done at a 99% confidence level with a ten-day holding period. The historical market data applied to calculate the VaR is updated on a two business day lag. Refer to "Market Risk Regulatory Capital" below for details of our ten-day VaR metrics for third quarters 2018 and 2017, respectively, including high, low, average and period end VaR for interest rate and foreign exchange rate risks, as well as total VaR.

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

Market Risk Regulatory Capital

The U.S. banking regulators' "Market Risk Rule" covers the calculation of market risk capital and substantially modified the determination of market risk-weighted assets and implemented a more risk sensitive methodology for the risk inherent in certain trading positions categorized as "covered positions." For the purposes of the Market Risk Rule, all of our client facing trades and associated hedges need to maintain a low risk profile to qualify, and do qualify, as "covered positions." For the three months ended September 30, 2018 and 2017, we were not subject to the reporting threshold under the Market Risk Rule. As a result, the \$760 million and \$594 million of calculated market risk-weighted assets as of September 30, 2018 and 2017, respectively, were not included in our risk-weighted assets. As such, our covered trading activities were risk-weighted under U.S. Basel III Standardized credit risk rules. While not subject to the determination requirements of market risk-weighted assets, we nevertheless comply with the Market Risk Rule's other requirements. The internal management VaR measure is calculated based on the same population of trades that is utilized for regulatory VaR. The following table presents the results of our modeled and non-modeled measures for regulatory capital calculations:

(in millions)	For the Three Months Ended				For the Three Months Ended			
	September 30, 2018				September 30, 2017			
Market Risk Category	Period	Average	High	Low	Period	Average	High	Low
Interest Rate	\$2	\$2	\$2	\$2	\$2	\$1	\$2	\$—
Foreign Exchange Currency Rate	—	—	—	—	—	—	—	—
Credit Spread	2	3	3	2	1	2	4	1
General VaR	3	3	4	3	2	2	5	1
Specific Risk VaR	—	—	—	—	—	—	—	—
Total VaR	\$3	\$3	\$4	\$3	\$2	\$2	\$5	\$1
Stressed General VaR	\$10	\$12	\$14	\$10	\$7	\$8	\$11	\$5
Stressed Specific Risk VaR	—	—	—	—	—	—	—	—
Total Stressed VaR	\$10	\$12	\$14	\$10	\$7	\$8	\$11	\$5
Market Risk Regulatory Capital	\$47				\$28			
Specific Risk Not Modeled Add-on	14				8			
de Minimis Exposure Add-on	—				11			
Total Market Risk Regulatory Capital	\$61				\$47			
Market Risk-Weighted Assets	\$760				\$594			
Market Risk-Weighted Assets (included in our FR Y-9C regulatory filing) ⁽¹⁾	\$—				\$—			

⁽¹⁾ For the three months ended September 30, 2018 and 2017, we did not meet the reporting threshold prescribed by Market Risk Capital Guidelines.

Stressed VaR

SVaR is an extension of VaR, but uses a longer historical look-back horizon that is fixed from January 3, 2005. This is done not only to identify headline risks from more volatile periods, but also to provide a counter-balance to VaR which may be low during periods of low volatility. The holding period for profit and loss determination is ten days. In addition to risk management purposes, SVaR is also a component of market risk regulatory capital. We calculate SVaR daily under its own dynamic window regime. In a dynamic window regime, values of the ten-day, 99% VaR are calculated over all possible 260-day periods that can be obtained from the complete historical data set. Refer to "Market Risk Regulatory Capital" above for details of SVaR metrics, including high, low, average and period end SVaR for the combined portfolio.

Sensitivity Analysis

Sensitivity analysis is the measure of exposure to a single risk factor, such as a one basis point change in rates or credit spread. We conduct and monitor sensitivity on interest rates, basis spreads, foreign exchange exposures, option prices, and credit spreads. Whereas VaR is based on previous moves in market risk factors over recent periods, it may

not be an accurate predictor of future market moves. Sensitivity analysis complements VaR, as it provides an indication of risk relative to each factor irrespective of historical market moves, and is an effective tool in evaluating the appropriateness of hedging strategies and concentrations.

Stress Testing

Conducting a stress test of a portfolio consists of running risk models with the inclusion of key variables that simulate various historical or hypothetical scenarios. For historical stress tests, profit and loss results are simulated

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

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

VaR Model Review and Validation

Market risk measurement models used are independently reviewed and subject to ongoing performance analysis by the model owner. The independent review and validation focuses on the model methodology, market data, and performance. Independent review of market risk measurement models is the responsibility of Citizens' Model Risk Management and Validation team. Aspects covered include challenging the assumptions used, the quantitative techniques employed and the theoretical justification underpinning them, and an assessment of the soundness of the required data over time. Where possible, the quantitative impact of the major underlying modeling assumptions will be estimated (e.g., through developing alternative models). Results of such reviews are shared with the U.S. banking regulators. The market risk models may be periodically enhanced due to changes in market price levels and price action regime behavior. The Market Risk Management and Validation team will conduct internal validation before a new or changed model element is implemented and before a change is made to a market data mapping.

VaR Backtesting

Backtesting is one form of validation of the VaR model and is run daily. The Market Risk Rule requires a comparison of our internal VaR measure to the actual net trading revenue (excluding fees, commissions, reserves, intra-day trading and net interest income) for each day over the preceding year (the most recent 250 business days). Any observed loss in excess of the VaR number is taken as an exception. The level of exceptions determines the multiplication factor used to derive the VaR and SVaR-based capital requirement for regulatory reporting purposes, when applicable. We perform sub-portfolio backtesting as required under the Market Risk Rule, and as approved by our banking regulators, for interest rate, credit spread, and foreign exchange positions. The following graph shows our daily net trading revenue and total internal, modeled VaR for the twelve months ended September 30, 2018.

Daily VaR Backtesting

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

KEY PERFORMANCE METRICS, NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS

For more information on the computation of key performance metrics and non-GAAP financial measures, see “—Introduction — Key Performance Metrics Used by Management and Non-GAAP Financial Measures,” included in this report. The following table presents computations of key performance metrics used throughout “Management’s Discussion and Analysis of Financial Condition and Results of Operations”:

(in millions, except share, per-share and ratio data)	Ref.	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,		
		2018	2017	2018	2017	
Total revenue (GAAP)	A	\$1,564	\$1,443	\$4,535	\$4,223	
Noninterest expense (GAAP)	B	910	858	2,668	2,576	
Net income (GAAP)	C	443	348	1,256	986	
Net income available to common stockholders (GAAP)	D	436	341	1,242	972	
Return on average common equity:						
Average common equity (GAAP)	E	\$19,599	\$19,728	\$19,687	\$19,617	
Return on average common equity	D/E	8.82	% 6.87	% 8.44	% 6.63	%
Return on average tangible common equity:						
Average common equity (GAAP)	E	\$19,599	\$19,728	\$19,687	\$19,617	
Less: Average goodwill (GAAP)		6,926	6,887	6,900	6,882	
Less: Average other intangibles (GAAP)		22	2	9	2	
Add: Average deferred tax liabilities related to goodwill (GAAP)		360	537	358	535	
Average tangible common equity	F	\$13,011	\$13,376	\$13,136	\$13,268	
Return on average tangible common equity	D/F	13.29	% 10.13	% 12.64	% 9.80	%
Return on average total assets:						
Average total assets (GAAP)	G	\$155,624	\$150,012	\$153,482	\$149,563	
Return on average total assets	C/G	1.13	% 0.92	% 1.09	% 0.88	%
Return on average total tangible assets:						
Average total assets (GAAP)	G	\$155,624	\$150,012	\$153,482	\$149,563	
Less: Average goodwill (GAAP)		6,926	6,887	6,900	6,882	
Less: Average other intangibles (GAAP)		22	2	9	2	
Add: Average deferred tax liabilities related to goodwill (GAAP)		360	537	358	535	
Average tangible assets	H	\$149,036	\$143,660	\$146,931	\$143,214	
Return on average total tangible assets	C/H	1.18	% 0.96	% 1.14	% 0.92	%
Efficiency ratio:						
Efficiency ratio	B/A	58.20	% 59.41	% 58.84	% 60.99	%
Operating leverage:						
Increase in total revenue		8.44	% 4.57	% 7.40	% 8.50	%
Increase (decrease) in noninterest expense		6.23	(1.04)	3.61	2.83	
Operating leverage		2.21	% 5.61	% 3.79	% 5.67	%
Effective income tax rate:						
Income before income tax expense	I	\$576	\$513	\$1,626	\$1,409	
Income tax expense	J	133	165	370	423	
Effective income tax rate	J/I	23.16	% 32.18	% 22.77	% 30.04	%
Net income per average common share - basic and diluted:						
Average common shares outstanding - basic (GAAP)	K	475,957,526	500,861,076	482,691,884	505,529,991	

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

Average common shares outstanding - diluted (GAAP)	L	477,599,917	502,157,384	484,250,843	507,062,805	
Net income per average common share - basic (GAAP)	D/K	\$0.92	\$0.68	\$2.57	\$1.92	
Net income per average common share - diluted (GAAP)	D/L	0.91	0.68	2.57	1.92	
Dividend payout ratio:						
Cash dividends declared and paid per common share	M	\$0.27	\$0.18	\$0.71	\$0.46	
Dividend payout ratio	M/(D/K)	29	% 26	% 28	% 24	%

50

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

(in millions, except ratio data)	Ref.	As of and for the Three Months Ended September 30, 2018				2017				
		Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated	
Net income available to common stockholders:										
Net income (GAAP)	N	\$207	\$234	\$2	\$443	\$122	\$201	\$25	\$348	
Less: Preferred stock dividends		—	—	7	7	—	—	7	7	
Net income (loss) available to common stockholders	O	\$207	\$234	(\$5)	\$436	\$122	\$201	\$18	\$341	
Efficiency ratio:										
Total revenue (GAAP)	P	\$1,034	\$520	\$10	\$1,564	\$901	\$490	\$52	\$1,443	
Noninterest expense (GAAP)	Q	686	202	22	910	648	195	15	858	
Efficiency ratio	Q/P	66.29	% 38.83	% NM	58.20	% 71.88	% 39.39	% NM	59.41	%
Return on average total tangible assets:										
Average total assets (GAAP)		\$62,974	\$52,871	\$39,779	\$155,624	\$60,012	\$49,833	\$40,167	\$150,012	
Less: Average goodwill (GAAP)		—	—	6,926	6,926	—	—	6,887	6,887	
Less: Average other intangibles (GAAP)		—	—	22	22	—	—	2	2	
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	360	360	—	—	537	537	
Average total tangible assets	R	\$62,974	\$52,871	\$33,191	\$149,036	\$60,012	\$49,833	\$33,815	\$143,660	
Return on average total tangible assets	N/R	1.31	% 1.75	% NM	1.18	% 0.81	% 1.60	% NM	0.96	%

(in millions, except ratio data)	Ref.	As of and for the Nine Months Ended September 30, 2018				2017				
		Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated	
Net income available to common stockholders:										
Net income (loss) (GAAP)	N	\$574	\$686	(\$4)	\$1,256	\$335	\$568	\$83	\$986	
Less: Preferred stock dividends		—	—	14	14	—	—	14	14	
Net income (loss) available to common stockholders	O	\$574	\$686	(\$18)	\$1,242	\$335	\$568	\$69	\$972	
Efficiency ratio:										
Total revenue (GAAP)	P	\$2,976	\$1,518	\$41	\$4,535	\$2,645	\$1,444	\$134	\$4,223	

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

Noninterest expense (GAAP)	Q	2,000	610	58	2,668	1,939	577	60	2,576	
Efficiency ratio	Q/P	67.20	%40.16	% NM	58.84	% 73.28	%39.89	% NM	60.99	%
Return on average total tangible assets:										
Average total assets (GAAP)		\$61,857	\$51,820	\$39,805	\$153,482	\$59,310	\$49,604	\$40,649	\$149,563	
Less: Average goodwill (GAAP)		—	—	6,900	6,900	—	—	6,882	6,882	
Less: Average other intangibles (GAAP)		—	—	9	9	—	—	2	2	
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	358	358	—	—	535	535	
Average total tangible assets	R	\$61,857	\$51,820	\$33,254	\$146,931	\$59,310	\$49,604	\$34,300	\$143,214	
Return on average total tangible assets	N/R	1.24	% 1.77	% NM	1.14	% 0.76	% 1.53	% NM	0.92	%

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

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

(in millions, except share, per-share and ratio data)	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
	Ref. 2018	2017	2018	2017
Noninterest income, Underlying:				
Noninterest income (GAAP)	\$416	\$381	\$1,175	\$1,130
Less: Notable items	—	—	—	(11)
Noninterest income, Underlying (non-GAAP)	\$416	\$381	\$1,175	\$1,141
Total revenue, Underlying:				
Total revenue (GAAP)	A \$1,564	\$1,443	\$4,535	\$4,223
Less: Notable items	—	—	—	(11)
Total revenue, Underlying (non-GAAP)	S \$1,564	\$1,443	\$4,535	\$4,234
Noninterest expense, Underlying:				
Noninterest expense (GAAP)	B \$910	\$858	\$2,668	\$2,576
Less: Notable items	9	—	9	15
Noninterest expense, Underlying (non-GAAP)	T \$901	\$858	\$2,659	\$2,561
Pre-provision profit:				
Total revenue (GAAP)	A \$1,564	\$1,443	\$4,535	\$4,223
Less: Noninterest expense (GAAP)	B 910	858	2,668	2,576
Pre-provision profit (GAAP)	\$654	\$585	\$1,867	\$1,647
Pre-provision profit, Underlying				
Total revenue, Underlying (non-GAAP)	S \$1,564	\$1,443	\$4,535	\$4,234
Less: Noninterest expense, Underlying (non-GAAP)	T 901	858	2,659	2,561
Pre-provision profit, Underlying (non-GAAP)	\$663	\$585	\$1,876	\$1,673
Total credit-related costs, Underlying:				
Provision for credit losses (GAAP)	\$78	\$72	\$241	\$238
Add: Notable items	—	—	—	26
Total credit-related costs, Underlying (non-GAAP)	\$78	\$72	\$241	\$264
Income before income tax expense, Underlying:				
Income before tax expense (GAAP)	I \$576	\$513	\$1,626	\$1,409
Less: Notable items	(9)	—	(9)	—
Income before income tax expense, Underlying (non-GAAP)	U \$585	\$513	\$1,635	\$1,409
Income tax expense and effective income tax rate, Underlying:				
Income tax expense (GAAP)	J \$133	\$165	\$370	\$423
Less: Notable items	(2)	—	(2)	(23)
Income tax expense, Underlying (non-GAAP)	V \$135	\$165	\$372	\$446
Effective income tax rate (GAAP)	J/I 23.16 %	32.18 %	22.77 %	30.04 %
Effective income tax rate, Underlying (non-GAAP)	V/U 23.20	32.18	22.78	31.65
Net income, Underlying:				
Net income (GAAP)	C \$443	\$348	\$1,256	\$986
Add: Notable items, net of tax expense	7	—	7	(23)
Net income, Underlying (non-GAAP)	W \$450	\$348	\$1,263	\$963

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

(in millions, except share, per-share and ratio data)	Ref.	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,		
		2018	2017	2018	2017	
Net income available to common stockholders, Underlying:						
Net income available to common stockholders (GAAP)	D	\$436	\$341	\$1,242	\$972	
Add: Notable items, net of tax expense		7	—	7	(23)
Net income available to common stockholders, Underlying (non-GAAP)	X	\$443	\$341	\$1,249	\$949	
Return on average common equity and return on average common equity, Underlying:						
Average common equity (GAAP)	E	\$19,599	\$19,728	\$19,687	\$19,617	
Return on average common equity	D/E	8.82	% 6.87	% 8.44	% 6.63	%
Return on average common equity, Underlying (non-GAAP)	X/E	8.96	6.87	8.48	6.47	
Return on average tangible common equity and return on average tangible common equity, Underlying:						
Average common equity (GAAP)	E	\$19,599	\$19,728	\$19,687	\$19,617	
Less: Average goodwill (GAAP)		6,926	6,887	6,900	6,882	
Less: Average other intangibles (GAAP)		22	2	9	2	
Add: Average deferred tax liabilities related to goodwill (GAAP)		360	537	358	535	
Average tangible common equity	F	\$13,011	\$13,376	\$13,136	\$13,268	
Return on average tangible common equity	D/F	13.29	% 10.13	% 12.64	% 9.80	%
Return on average tangible common equity, Underlying (non-GAAP)	X/F	13.50	10.13	12.71	9.57	
Return on average total assets and return on average total assets, Underlying:						
Average total assets (GAAP)	G	\$155,624	\$150,012	\$153,482	\$149,563	
Return on average total assets	C/G	1.13	% 0.92	% 1.09	% 0.88	%
Return on average total assets, Underlying (non-GAAP)	W/G	1.15	0.92	1.10	0.86	
Return on average total tangible assets and return on average total tangible assets, Underlying:						
Average total assets (GAAP)	G	\$155,624	\$150,012	\$153,482	\$149,563	
Less: Average goodwill (GAAP)		6,926	6,887	6,900	6,882	
Less: Average other intangibles (GAAP)		22	2	9	2	
Add: Average deferred tax liabilities related to goodwill (GAAP)		360	537	358	535	
Average tangible assets	H	\$149,036	\$143,660	\$146,931	\$143,214	
Return on average total tangible assets	C/H	1.18	% 0.96	% 1.14	% 0.92	%
Return on average total tangible assets, Underlying (non-GAAP)	W/H	1.20	0.96	1.15	0.90	
Efficiency ratio and efficiency ratio, Underlying:						
Efficiency ratio	B/A	58.20	% 59.41	% 58.84	% 60.99	%
Efficiency ratio, Underlying (non-GAAP)	T/S	57.62	59.41	58.64	60.47	
Operating leverage and operating leverage, Underlying:						
Increase in total revenue		8.44	% 4.57	% 7.40	% 8.50	%
Increase (decrease) in noninterest expense		6.23	(1.04	) 3.61	2.83	
Operating leverage		2.21	% 5.61	% 3.79	% 5.67	%

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

Increase in total revenue, Underlying (non-GAAP)	8.46	% 4.57	% 7.12	% 8.79	%
Increase (decrease) in noninterest expense, Underlying (non-GAAP)	5.20	(1.04)	3.88	2.24	
Operating leverage, Underlying (non-GAAP)	3.26	% 5.61	% 3.24	% 6.55	%
Net income per average common share - basic and diluted and net income per average common share - basic and diluted, Underlying:					
Average common shares outstanding - basic (GAAP)	K	475,957,526	500,861,076	482,691,884	505,529,991
Average common shares outstanding - diluted (GAAP)	L	477,599,917	502,157,384		