

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended  
December 31, 2017

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

For the Transition Period From  
(Not Applicable)

Commission File Number 001-36636



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

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

One Citizens Plaza, Providence, RI 02903  
( Address of principal executive offices, including zip code )

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common stock, \$0.01 par value per share

Name of each exchange on which registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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 (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer

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

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

The aggregate market value of voting stock held by nonaffiliates of the Registrant was \$18,016,585,315 (based on the June 30, 2017 closing price of Citizens Financial Group, Inc. common shares of \$35.68 as reported on the New York Stock Exchange). There were 487,325,116 shares of Registrant's common stock (\$0.01 par value) outstanding on February 1, 2018.

**Documents incorporated by reference**

Portions of Citizens Financial Group, Inc.'s proxy statement to be filed with the United States Securities and Exchange Commission in connection with Citizens Financial Group, Inc.'s 2018 annual meeting of stockholders (the "Proxy Statement") are incorporated by reference into Part III hereof. Such Proxy Statement will be filed within 120 days of Citizens Financial Group, Inc.'s fiscal year ended December 31, 2017.

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# CITIZENS FINANCIAL GROUP, INC.

## GLOSSARY OF ACRONYMS AND TERMS

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

<b>2017 Tax Legislation</b>	An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (Tax Cuts and Jobs Act)
<b>AFS</b>	Available for Sale
<b>ALLL</b>	Allowance for Loan and Lease Losses
<b>AOCI</b>	Accumulated Other Comprehensive Income (Loss)
<b>ASU</b>	Accounting Standards Update
<b>ATM</b>	Automated Teller Machine
<b>Board or Board of Directors</b>	The Board of Directors of Citizens Financial Group, Inc.
<b>bps</b>	Basis Points
<b>C&amp;I</b>	Commercial and Industrial
<b>Capital Plan Rule</b>	Federal Reserve's Regulation Y Capital Plan Rule
<b>CBNA</b>	Citizens Bank, National Association
<b>CBPA</b>	Citizens Bank of Pennsylvania
<b>CCAR</b>	Comprehensive Capital Analysis and Review
<b>CCB</b>	Capital Conservation Buffer
<b>CCMI</b>	Citizens Capital Markets, Inc.
<b>CET1</b>	Common Equity Tier 1
<b>CFPB</b>	Consumer Financial Protection Bureau
<b>CFTC</b>	Commodity Futures Trading Commission
<b>Citizens or CFG or the Company</b>	Citizens Financial Group, Inc. and its Subsidiaries
<b>CLTV</b>	Combined Loan-to-Value
<b>CLO</b>	Collateralized Loan Obligation
<b>CRA</b>	Community Reinvestment Act
<b>CRE</b>	Commercial Real Estate
<b>DFAST</b>	Dodd-Frank Act Stress Test
<b>DIF</b>	Deposit Insurance Fund
<b>Dodd-Frank Act</b>	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
<b>EPS</b>	Earnings Per Share
<b>ESPP</b>	Employee Stock Purchase Program
<b>ERISA</b>	Employee Retirement Income Security Act of 1974
<b>Exchange Act</b>	The Securities Exchange Act of 1934
<b>Fannie Mae (FNMA)</b>	Federal National Mortgage Association
<b>FASB</b>	Financial Accounting Standards Board
<b>FDIA</b>	Federal Deposit Insurance Act
<b>FDIC</b>	Federal Deposit Insurance Corporation
<b>FFIEC</b>	Federal Financial Institutions Examination Council
<b>FHLB</b>	Federal Home Loan Bank
<b>FICO</b>	Fair Isaac Corporation (credit rating)
<b>FINRA</b>	Financial Industry Regulation Authority
<b>FRB</b>	Board of Governors of the Federal Reserve System and, as applicable, Federal Reserve Bank(s)
<b>Freddie Mac (FHLMC)</b>	Federal Home Loan Mortgage Corporation
<b>FTP</b>	Funds Transfer Pricing

# CITIZENS FINANCIAL GROUP, INC.

<b>GAAP</b>	Accounting Principles Generally Accepted in the United States of America
<b>GDP</b>	Gross Domestic Product
<b>GLBA</b>	Gramm-Leach-Bliley Act of 1999
<b>Ginnie Mae (GNMA)</b>	Government National Mortgage Association
<b>HELOC</b>	Home Equity Line of Credit
<b>HTM</b>	Held To Maturity
<b>IPO</b>	Initial Public Offering
<b>LCR</b>	Liquidity Coverage Ratio
<b>LGD</b>	Loss Given Default
<b>LIBOR</b>	London Interbank Offered Rate
<b>LIHTC</b>	Low Income Housing Tax Credit
<b>LTV</b>	Loan-to-Value
<b>MBS</b>	Mortgage-Backed Securities
<b>Mid-Atlantic</b>	District of Columbia, Delaware, Maryland, New Jersey, New York, Pennsylvania, Virginia, and West Virginia
<b>Midwest</b>	Illinois, Indiana, Michigan, and Ohio
<b>MSA</b>	Metropolitan Statistical Area
<b>MSR</b>	Mortgage Servicing Right
<b>New England</b>	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
<b>NM</b>	Not meaningful
<b>NSFR</b>	Net Stable Funding Ratio
<b>NYSE</b>	New York Stock Exchange
<b>OCC</b>	Office of the Comptroller of the Currency
<b>OCI</b>	Other Comprehensive Income
<b>OFAC</b>	Office of Foreign Assets Control
<b>Parent Company</b>	Citizens Financial Group, Inc. (the Parent Company of Citizens Bank of Pennsylvania, Citizens Bank, National Association and other subsidiaries)
<b>PD</b>	Probability of Default
<b>peers or peer banks or peer regional banks</b>	BB&T, Comerica, Fifth Third, KeyCorp, M&T, PNC, Regions, SunTrust and U.S. Bancorp
<b>REITs</b>	Real Estate Investment Trusts
<b>ROTCE</b>	Return on Average Tangible Common Equity
<b>RPA</b>	Risk Participation Agreement
<b>SBO</b>	Serviced by Others loan portfolio
<b>SEC</b>	United States Securities and Exchange Commission
<b>SVaR</b>	Stressed Value-at-Risk
<b>TDR</b>	Troubled Debt Restructuring
<b>VaR</b>	Value-at-Risk
<b>VIE</b>	Variable Interest Entities

# 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,” and “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 under “Risk Factors” in Part I, Item 1A, included in this report.

# CITIZENS FINANCIAL GROUP, INC.

## PART I

### ITEM 1. BUSINESS

Citizens Financial Group, Inc. (“Citizens” or the “Company”) is the 13<sup>th</sup> largest retail bank holding company in the United States with our headquarters in Providence, Rhode Island. <sup>(1)</sup> We deliver a comprehensive range of retail and commercial banking products and services to more than five million individuals, institutions and companies largely through approximately 1,150 branches operating in an 11 -state banking footprint across the New England, Mid-Atlantic and Midwest regions and nationwide for select products through our online, telephone and mobile banking platforms. We also maintain more than 130 retail and commercial non-branch offices located in our branch banking footprint and in other states and the District of Columbia, which are largely contiguous with our footprint and we have developed product financing and other partnerships which serve customers nationwide. At December 31, 2017, the Company had total assets of \$152.3 billion, total deposits of \$115.1 billion and total stockholders’ equity of \$20.3 billion.

Community involvement is one of our principal values and we strive to contribute to a better quality of life by serving the communities across our footprint through employee volunteer efforts, a foundation that funds a range of non-profit organizations and executives who provide board leadership to community organizations. These efforts contribute to a culture that seeks to promote positive employee morale and provide differentiated brand awareness in the community relative to peer banks, while also making a positive difference within the communities we serve. Employees gave more than 114,000 volunteer hours in 2017 and also served on nearly 600 community boards and committees across our footprint. We believe our strong commitment to our communities provides a competitive advantage by strengthening our customer relationships and increasing loyalty.

Citizens is a bank holding company which was incorporated under Delaware state law in 1984 whose primary federal regulator is the FRB. Our primary subsidiaries are CBNA, a national banking association whose primary federal regulator is the OCC, and CBPA, a Pennsylvania-chartered savings bank regulated by the Department of Banking of the Commonwealth of Pennsylvania and supervised by the FDIC as its primary federal regulator.

Our history dates to High Street Bank, founded in 1828, which established Citizens Savings Bank in 1871. In 1988 we became a wholly-owned subsidiary of The Royal Bank of Scotland Group plc (“RBS”). Late in 2013, Citizens embarked on a series of initiatives to separate from RBS and improve the financial performance and capabilities of the Company with the objective of becoming a top-performing regional bank. In September 2014, Citizens (NYSE: CFG) became a publicly traded company in the largest traditional bank IPO in U.S. history and, through a series of follow-on offerings in March, July and November of 2015, fully separated from RBS.

### Business Segments

Citizens’ activities are organized, for management reporting purposes, into two reportable business operating segments — Consumer Banking and Commercial Banking. The consolidated Company also includes activities outside the two business operating segments as “Other” which includes 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 the Consumer Banking or Commercial Banking segments and the financial impact of non-core, liquidating loan portfolios and other non-core assets and liabilities. For a description of non-core assets, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Analysis of Financial Condition — Loans and Leases — Non-Core Assets” in Part II, Item 7, included in this report. For additional information regarding our business segments see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — 2017 compared with 2016 — Business Operating Segments” in Part II, Item 7 and Note 25 “ Business Operating Segments” to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

(1) According to SNL Financial, as of September 30, 2017.

# CITIZENS FINANCIAL GROUP, INC.

## BUSINESS

The following table presents selected financial information for our business operating segments, Other and consolidated:

(in millions)	For the Year Ended December 31,							
	2017				2016			
	Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	\$2,651	\$1,411	\$111	\$4,173	\$2,443	\$1,288	\$27	\$3,758
Noninterest income	905	538	91	1,534	883	466	148	1,497
Total revenue	3,556	1,949	202	5,707	3,326	1,754	175	5,255
Noninterest expense	2,593	772	109	3,474	2,547	741	64	3,352
Net income	\$452	\$774	\$426	\$1,652	\$345	\$631	\$69	\$1,045
Total average loans and leases and loans held for sale	\$58,371	\$48,655	\$2,946	\$109,972	\$55,052	\$45,903	\$2,999	\$103,954
Total average deposits	\$74,873	\$30,005	\$6,996	\$111,874	\$72,003	\$26,811	\$6,633	\$105,447

### Consumer Banking Segment

Consumer Banking serves retail customers and small businesses with annual revenues of up to \$25 million with products and services that include deposit products, mortgage and home equity lending, credit cards, business loans, wealth management and investment services. We also offer our customers auto financing, education lending and unsecured and product financing installment lending products and serve those customers both in-footprint and nationally through our online platform and telephone service centers.

Consumer Banking operates a multi-channel distribution network with a workforce of approximately 6,700 branch colleagues, approximately 1,150 branches, including about 330 in-store locations, and approximately 3,300 ATMs. Our network includes approximately 1,330 specialists covering lending needs, savings and investments and business banking. Our online and mobile capabilities offer customers the convenience of paying bills and transferring money between accounts and from person to person, as well as a host of other everyday transactions.

We believe our strong retail deposit market share in our core regions, which have relatively diverse economies and affluent demographics, is a competitive advantage. As of June 30, 2017, we ranked second by retail deposit market share in the New England region and also ranked in the top five in nine of our ten key MSAs, including Providence, Boston, Pittsburgh, Philadelphia and Cleveland. <sup>(1)</sup>

The following table sets forth information regarding our competitive position in our principal MSAs:

(dollars in millions)	Total Branches	Total Deposits	Total Deposit Rank	Deposit Market Share
Boston, MA	203	\$35,939	2	16.1%
Philadelphia, PA	179	\$17,548	5	4.8%
Providence, RI	96	\$12,264	1	30.2%
Pittsburgh, PA	120	\$9,483	3	7.3%
Cleveland, OH	52	\$9,018	4	13.5%
Detroit, MI	88	\$5,335	8	4.1%
Manchester, NH	21	\$4,390	1	38.6%
Albany, NY	23	\$3,357	2	11.4%
Buffalo, NY	41	\$1,836	5	4.5%
Rochester, NY	32	\$1,638	5	8.7%

Source: FDIC, June 2017. Excludes "non-retail banks" as defined by SNL Financial. The scope of "non-retail banks" is subject to the discretion of SNL Financial, but typically includes: industrial bank and non-depository trust charters, institutions with more than 20% brokered deposits (of total deposits), institutions with more than 20% credit card loans (of total loans), institutions deemed not to broadly participate in the banking services market and other nonretail competitor banks.

<sup>(1)</sup> According to SNL Financial.

# CITIZENS FINANCIAL GROUP, INC.

## BUSINESS

### ***Commercial Banking Segment***

Commercial Banking primarily serves companies and institutions with annual revenues of \$25 million to \$2.5 billion and strives to be the lead bank for our clients. We offer a broad complement of financial products and solutions, including lending and leasing, deposit and treasury management services, foreign exchange and interest rate risk management solutions, as well as corporate finance, merger and acquisition, and debt and equity capital markets capabilities.

Commercial Banking is structured along lines of business, as well as product groups. The Corporate Finance & Global Markets and the Treasury Solutions product groups support all lines of business. These business lines and product groups work in teams to understand and determine client needs and provide comprehensive solutions to meet those needs. We strive to acquire new clients through a coordinated approach to the market leveraging deep industry knowledge in specialized banking groups and a geographic coverage model generally.

Our Corporate Banking business line services Middle Market domestic commercial and industrial clients, companies with annual gross revenues of \$25 million to \$500 million and Mid-corporate companies with annual revenues of \$500 million to \$2.5 billion. Our Middle Market business is focused primarily on our 11-state footprint. In our Mid-corporate and Industry Verticals businesses, our focus is national within our areas of expertise. Corporate Banking offers a broad range of products, including secured and unsecured lines of credit, term loans, commercial mortgages, domestic and global treasury management solutions, trade services, interest rate products, foreign exchange services and letters of credit. Corporate Banking is a general lending business, however our specialty Industry Verticals business addresses other corporate banking services for U.S. subsidiaries of foreign corporations, technology, government entities, healthcare, oil and gas, not-for-profit and educational institutions, professional firms and franchise finance.

Our Commercial Real Estate business line provides customized debt capital solutions for Middle Market operators, institutional developers and investors as well as REITs. Commercial Real Estate provides financing for projects in the office, multi-family, industrial, retail, healthcare and hospitality sectors.

Corporate Finance & Global Markets serves clients through key product groups including Corporate Finance, Capital Markets, and Global Markets. Corporate Finance provides advisory services to Middle Market and Mid-corporate companies, including mergers and acquisitions and capital structure advice. The team works closely with industry-sector specialists within debt capital markets to advise our clients. Our Corporate Finance business provides acquisition and follow-on financing for new and recapitalized portfolio companies of key sponsors; services meeting the unique and time-sensitive needs of private equity firms, management companies and funds; and underwriting and portfolio management expertise for leveraged transactions and relationships. Capital Markets originates, structures and underwrites multi-bank syndicated credit facilities targeting Middle Market, Mid-corporate and private equity sponsors with a focus on offering value-added ideas to optimize their capital structures. Citizens Capital Markets, Inc. ("CCMI"), our commercial broker-dealer, advises on or facilitates mergers and acquisitions, valuations, tender offers, financial restructurings, asset sales, divestitures or other corporate reorganizations or business combinations. Global Markets is a customer-facing business providing foreign exchange and interest rate risk management services.

The Treasury Solutions product group supports Commercial Banking and Business Banking clients with treasury management solutions, including domestic and international products and services related to receivables, payables, information reporting and liquidity management as well as commercial credit cards and trade finance.

Our Asset Finance business line offers equipment financing term loans and leases for Middle Market and Mid-corporate companies, as well as Fortune 500 companies.

# CITIZENS FINANCIAL GROUP, INC.

## BUSINESS

### Business Strategy

Our mission is to help each of our customers, colleagues and communities reach their potential, and our vision is to be a top-performing bank distinguished by its customer-centric culture, mindset of continuous improvement and excellent capabilities. It is embedded in our culture to make sure we understand our customers' needs so we can tailor advice and solutions to make our customers more successful. Our business strategy is designed to maximize the full potential of our business and drive sustainable growth and enhanced profitability, and our success rests on our ability to distinguish the bank as follows:

*Maintain a high-performing, customer-centric organization:* To accomplish this, we are embedding a "customer-first" culture among our managers and colleagues to deliver the best possible banking experience for our customers. For our colleagues, we plan to drive talent management to the next level, with a focus on attracting, developing and retaining great people with a goal of ensuring strong leadership, teamwork and a sense of accountability and urgency.

*Develop differentiated value propositions to acquire, deepen, and retain core customer segments:* We have focused on certain customer segments where we believe we are well positioned to compete. In Consumer Banking we focus on Mass Market and Mass Affluent customers; in Commercial Banking, we focus on customers in the Middle Market, Mid-corporate, and certain Industry Vertical areas. By developing differentiated and targeted value propositions, we believe we can attract new customers, deepen relationships with existing customers, and deliver an enhanced customer experience.

*Build excellent capabilities that will allow us to stand out from our competitors:* Across our businesses we strive to deliver seamless, multi-channel experiences and allow customers to interact with us when, where and how they want. We are building out enhanced data analytics capabilities to provide timely, insight-driven and tailored advice and continue to add new capabilities that help deliver solutions for our consumer and business customers throughout their lifecycles. We are also focused on expanding our digital capabilities and related strategies in order to satisfy rapidly changing customer preferences.

*Operate with financial discipline and a mindset of continuous improvement to self-fund investments:* We believe that continued focus on operational efficiency is critical to our profitability and the ability to continue to reinvest to drive future growth. We launched the first Tapping our Potential ("TOP") initiative in late 2014 which was designed to improve the effectiveness, efficiency, and competitiveness of the franchise, and we commenced the fourth phase of this initiative in mid-2017.

*Prudently grow and optimize our balance sheet:* We operate with a strong balance sheet with regard to capital, liquidity and funding, coupled with a well-defined and prudent risk appetite. We are prudently growing our balance sheet and we strive to deliver attractive risk-adjusted returns by making good capital and resource allocation decisions through our balance sheet optimization initiatives, being good stewards of our resources, and rigorously evaluating our execution.

*Modernize our technology and operational models to improve delivery, agility and speed to market:* We are continuing to modernize our technology environment so that we can accelerate our speed-to-market and take advantage of technology opportunities in the marketplace. We are also investing in new technologies and leveraging those technologies to deliver better customer outcomes efficiently in order to deliver on our overall financial objectives. We have also engaged in FinTech partnerships that help deliver differentiated digital experiences for our customers.

*Embed risk management within our culture and our operations:* We are continuing to strengthen our risk management culture and processes as the quality of our risk management program directly affects our ability to execute our strategy, deliver value to our stakeholders and become a top-performing bank. Moreover, our continuous and disciplined enhancements to our processes and talent, as well as our ongoing investments in risk technology and frameworks, serve to support and bolster our risk management capabilities and our regulatory profile.

### Competition

The financial services industry is highly competitive. Our branch footprint is in the New England, Mid-Atlantic and Midwest regions, though certain lines of business serve broader, national markets. Within those markets we face competition from community banks, super-regional and national financial institutions, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, hedge funds and private equity firms. Some of our larger competitors may make available to their customers a broader array of product, pricing and structure alternatives while some smaller competitors may have more liberal lending policies and processes. Competition among providers of financial products

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and services continues to increase, with consumers having the opportunity to select from a growing variety of traditional and nontraditional alternatives. The ability of non-banking financial institutions, including FinTech companies, to provide services previously limited to commercial banks has also intensified competition.

In Consumer Banking, the industry has become increasingly dependent on and oriented toward technology-driven delivery systems, permitting transactions to be conducted through telephone, online and mobile channels. In addition, technology has lowered barriers to entry and made it possible for non-bank institutions to attract funds and provide lending and other financial services in our footprint, despite not having a physical presence within our footprint. Given their lower cost structure, these institutions are often able to offer higher rates on deposit products than what may be average for the market for retail banking institutions with a traditional branch footprint, such as us. The primary factors driving competition for loans and deposits are interest rates, fees charged, customer service levels, convenience, including branch location and hours of operation, and the range of products and services offered.

In Commercial Banking, there is intense competition for quality loan originations from traditional banking institutions, particularly large regional banks, as well as commercial finance companies, leasing companies and other non-bank lenders, and institutional investors including CLO managers, hedge funds and private equity firms. Some larger competitors, including certain national banks that compete in our market area, may offer a broader array of products and, due to their asset size, may sometimes be in a position to hold more exposure on their own balance sheet. We compete on a number of factors including, among others, providing innovative corporate finance solutions, quality of customer service and execution, range of products offered, price and reputation.

### Regulation and Supervision

Our operations are subject to extensive regulation, supervision and examination under federal and state laws. These laws and regulations cover all aspects of our business, including lending practices, safeguarding deposits, customer privacy and information security, capital structure, liquidity transactions with affiliates and conduct and qualifications of personnel. These laws and regulations are intended primarily for the protection of depositors, the Deposit Insurance Fund and the banking system as a whole and not for the protection of shareholders or other investors. The discussion below outlines the material elements of selected laws and regulations applicable to us and our subsidiaries. Changes in applicable law or regulation, and in their interpretation and application by regulatory agencies and other governmental authorities, cannot be predicted, but may have a material effect on our business, financial condition or results of operations.

We and our subsidiaries and affiliates are subject to numerous examinations by federal and state banking regulators, as well as the SEC, FINRA and various state insurance and securities regulators. In some cases, regulatory agencies may take supervisory actions that may not be publicly disclosed, and such actions may restrict or limit our activities or activities of our subsidiaries. As part of our regular examination process, our and our banking subsidiaries' respective regulators may advise us or our banking subsidiaries to operate under various restrictions as a prudential matter. We and our subsidiaries have periodically received requests for information from regulatory authorities at the federal and state level, including from state insurance commissions, state attorneys general, federal agencies or law enforcement authorities, securities regulators and other regulatory authorities, concerning their business practices. Such requests are considered incidental to the normal conduct of business. For a further discussion of how regulatory actions may impact our business, see "Risk Factors" in Part I, Item 1A, included in this report.

### Overview

We are a bank holding company under the Bank Holding Company Act of 1956 ("Bank Holding Company Act"). While some banks have surrendered their bank holding company status, we have elected to be treated as a financial holding company under amendments to the Bank Holding Company Act as effected by Gramm-Leach-Bliley Act of 1999 ("GLBA"). As such, we are subject to the supervision, examination and reporting requirements of the Bank Holding Company Act and the regulations of the FRB, including through the Federal Reserve Bank of Boston. Under the system of "functional regulation" established under the Bank Holding Company Act, the FRB serves as the primary regulator of our consolidated organization, and the primary regulator of our broker-dealer subsidiary, the SEC, directly regulates the activities of that subsidiary, with the FRB exercising a supervisory role. The Dodd-Frank Act amendments to the Bank Holding Company Act require the FRB to examine the activities of non-depository institution subsidiaries of bank holding companies (that are not functionally regulated) that are engaged in depository institution-permissible activities and provide the FRB with back-up examination and enforcement authority for such activities. The FRB also has the authority to require reports of and examine any holding company subsidiary.

Our principal bank subsidiary, CBNA, is a national banking association. As such, it is subject to regulation, examination and supervision by the OCC as its primary federal regulator and by the FDIC as the insurer of its deposits.

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CBPA is a Pennsylvania-chartered savings bank. Accordingly, it is subject to supervision by the Department of Banking of the Commonwealth of Pennsylvania (the “PA Banking Department”) as its chartering agency, and regulation, supervision and examination by the FDIC as the primary federal regulator of state-chartered savings banks and as the insurer of CBPA’s deposits.

The federal and state banking regulators have authority to approve or disapprove mergers, acquisitions, consolidations, the establishment of branches and similar corporate actions. These banking regulators also have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. State and federal law govern the activities in which CBNA and CBPA engage, including the investments each makes and the aggregate amount of loans that they may grant to one borrower. Various consumer and compliance laws and regulations also affect their operations. The actions the FRB takes to implement monetary policy also affect CBNA and CBPA.

In addition, CBNA and CBPA are subject to regulation, supervision and examination by the CFPB with respect to consumer protection laws and regulations. The CFPB has broad authority to, among other things, regulate the offering and provision of consumer financial products by depository institutions, like CBNA and CBPA, with more than \$10 billion in total assets. The CFPB may promulgate rules under a variety of consumer financial protection statutes, including the Truth in Lending Act, the Electronic Funds Transfer Act and the Real Estate Settlement Procedures Act.

### ***Financial Regulatory Reform***

The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, addressing, among other things, systemic risk, capital adequacy, deposit insurance assessments, consumer financial protection, regulation of derivatives and securities markets, restrictions on an insured bank’s transactions with its affiliates, lending limits and mortgage-lending practices. Moreover, as a general matter, in recent years, the federal banking regulators (the FRB, the OCC and the FDIC) as well as the CFPB have taken a more stringent approach to supervising and regulating the financial institutions and financial products and services over which the regulators exercise their respective supervisory authorities, including with respect to enforcement matters. Our two banking subsidiaries and our products and services have been subject to greater supervisory scrutiny and enhanced supervisory requirements and expectations in recent years, and we expect this scrutiny to continue for the foreseeable future.

Sections 165 and 166 of the Dodd-Frank Act direct the FRB to establish enhanced prudential standards and early remediation requirements applicable to systemically important financial institutions (“SIFIs”), bank holding companies with total consolidated assets of \$50 billion or more. The FRB has adopted final rules implementing three aspects of Sections 165 and 166—liquidity requirements, stress testing of capital, and overall risk management requirements. The final rules’ liquidity requirements are described below under “—Liquidity Standards” and their stress testing requirements are described below under “—Capital Planning and Stress Testing Requirements”.

Under Section 165 of the Dodd-Frank Act and the implementing rule of the FRB and FDIC, a bank holding company with total consolidated assets of \$50 billion, such as us, must submit a periodic resolution plan to the FRB and FDIC providing for the company’s strategy for rapid and orderly resolution in the event of its material financial distress or failure. The FDIC has also issued a separate resolution planning rule applicable to insured depository institutions of \$50 billion or more in total assets, such as CBNA. We submitted our most recent resolution plan to the FRB and FDIC in December 2016; CBNA submitted its most recent resolution plan to the FDIC in December 2015. If the FRB and the FDIC jointly determine that our plan is not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code and we do not cure the deficiencies, the FRB and the FDIC may jointly impose more stringent capital, leverage or liquidity requirements or restrictions on our growth, activities or operations.

The FRB has not yet adopted final rules implementing two key requirements of Section 165 and 166—single counterparty credit limits (“SCCL”) and early remediation requirements. In March 2016, the FRB issued a re-proposal of its SCCL rules, initially published for comment in 2014. As re-proposed, we and our controlled entities would be prohibited from having an aggregate net credit exposure to any counterparty (as broadly defined in the proposed rule to include certain related entities to the entity that is the direct obligor) exceeding 25% of our tier 1 capital. The SCCL rules, when finalized, may affect our ability to enter into transactions, including as hedges for other exposures, with other financial institutions.

The U.S. Basel III rules, summarized briefly below, have impacted our level of capital, and may influence the types of business we may pursue and how we pursue business opportunities. Among other things, the U.S. Basel III rules raised the required minimums for certain capital ratios, added a common equity ratio, included capital

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buffers, and restricted what constitutes capital. The capital and risk weighting requirements became effective for us on January 1, 2015.

In November 2017, a bipartisan group of Senators introduced a bill to further reform the regulation of financial institutions. Most significantly for us, this bill would substantially increase the asset threshold for automatic regulation of bank holding companies as SIFIs from \$50 billion to \$250 billion. If enacted, this bill would allow us to no longer be considered a SIFI and would therefore exempt us from the enhanced prudential standards applicable to SIFIs. The bill would also exempt bank holding companies with less than \$250 billion in total consolidated assets, such as us, from the Dodd-Frank Act requirement to conduct company-run stress tests and would revise supervisory stress testing for bank holding companies with between \$100 and \$250 billion in total consolidated assets by requiring that the FRB conduct periodic, instead of annual, stress tests of those bank holding companies in order to evaluate whether those bank holding companies have consolidated capital necessary to absorb losses as a result of adverse economic conditions.

Many of the provisions of the Dodd-Frank Act and other laws are subject to further rulemaking, guidance and interpretation by the applicable federal regulators. We will continue to evaluate the impact of any changes in law and any new regulations promulgated, including changes in regulatory costs and fees, modifications to consumer products or disclosures required by the CFPB and the requirements of the enhanced supervision provisions, among others.

### ***Financial Holding Company Regulation***

The Bank Holding Company Act generally restricts bank holding companies from engaging in business activities other than (i) banking, managing or controlling banks, (ii) furnishing services to or performing services for subsidiaries and (iii) activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto. For so long as they continue to meet the eligibility requirements for financial holding company status, financial holding companies may engage in a broader range of activities, including, among other things, securities underwriting and dealing, insurance underwriting and brokerage, merchant banking and other activities that are determined by the FRB, in coordination with the Treasury Department, to be “financial in nature or incidental thereto” or that the FRB determines unilaterally to be “complementary” to financial activities. In addition, a financial holding company may conduct permissible new financial activities or acquire permissible non-bank financial companies with after-the-fact notice to the FRB.

As noted above, we currently have elected to be treated as a financial holding company under amendments to the Bank Holding Company Act as effected by GLBA. To maintain financial holding company status, a financial holding company and all of its insured depository institution subsidiaries must remain well capitalized and well managed (as described below under “Federal Deposit Insurance Act”), and maintain a CRA rating of at least “Satisfactory.” If a financial holding company ceases to meet the capital and management requirements, the FRB’s regulations provide that the financial holding company must enter into an agreement with the FRB to comply with all applicable capital and management requirements. Until the financial holding company returns to compliance, the FRB may impose limitations or conditions on the conduct of its activities, and the company may not commence any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the FRB. In addition, the failure to meet such requirements could result in other material restrictions on the activities of the financial holding company, may also adversely affect the financial holding company’s ability to enter into certain transactions, including acquisition transactions, or obtain necessary approvals in connection therewith, and may result in the bank holding company losing financial holding company status. Any restrictions imposed on our activities by the FRB may not necessarily be made known to the public. If the company does not return to compliance within 180 days, which period may be extended, the FRB may require the financial holding company to divest its subsidiary depository institutions or to discontinue or divest investments in companies engaged in activities permissible only for a bank holding company electing to be treated as a financial holding company. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state.

### ***Capital***

We must comply with the FRB’s capital adequacy rules. CBNA and CBPA must comply with similar capital adequacy rules of the OCC and FDIC, respectively. The capital adequacy rules of all three agencies are based on the Basel III framework. For more detail on our regulatory capital, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Capital and Regulatory Matters” in Part II, Item 7, included in this report.

The U.S. Basel III rules, among other things, (i) impose a capital measure called common equity tier 1 capital, or “CET1 capital”, (ii) specify that tier 1 capital consists of CET1 capital and “additional tier 1 capital” instruments

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meeting certain revised requirements, (iii) define CET1 capital narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments to capital as compared to previous regulations. As noted below, implementation of certain elements of the U.S. Basel III rules continues to be phased-in.

Under the U.S. Basel III rules, the minimum capital ratios are:

- 4.5% CET1 capital to risk-weighted assets;
- 6.0% tier 1 capital (that is, CET1 capital plus additional tier 1 capital) to risk-weighted assets;
- 8.0% total capital (that is, tier 1 capital plus tier 2 capital) to risk-weighted assets; and
- 4.0% tier 1 capital to total average consolidated assets as defined under U.S. Basel III Standardized approach (known as the “leverage ratio”).

The U.S. Basel III rules also impose a capital conservation buffer (“CCB”) on top of the three minimum risk-weighted asset ratios listed above. When fully phased-in on January 1, 2019, the CCB will be 2.5%. Banking institutions that fail to meet the effective minimum ratios once the CCB is taken into account (that is, 7.0% for CET1 capital to risk-weighted assets, 8.5% for tier 1 capital to risk-weighted assets and 10.5% for total capital to risk-weighted assets, once the CCB is fully phased-in) will be subject to constraints on capital distributions, including dividends and share repurchases, and certain discretionary executive compensation. The severity of the constraints depends on the amount of the shortfall. 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. For more details, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Capital and Regulatory Matters” in Part II, Item 7, included in this report.

We are also subject to the FRB’s risk-based capital requirements for market risk. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Market Risk — Market Risk Regulatory Capital” in Part II, Item 7, included in this report, for further discussion.

The U.S. Basel III rules also provide for a number of deductions from, and adjustments to, CET1 capital. For example, certain deferred tax assets (“DTAs”) and significant investments in non-consolidated financial entities must be deducted from CET1 capital to the extent that any one such category exceeds 10% of CET1 capital or all such items, in the aggregate, exceed 15% of CET1 capital. The deductions and other adjustments to CET1 capital generally became fully phased-in on January 1, 2018, although, as discussed below, the federal banking regulators have extended the transitional treatment for certain items.

In November 2017, the federal banking regulators issued a final rule that extended the 2017 transition provisions 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 DTAs, mortgage servicing assets, investments in non-consolidated financial entities and minority interests. As a result, effective January 1, 2018, our mortgage servicing assets will 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, investments in non-consolidated financial entities and minority interests.

The U.S. Basel III rules prescribe a standardized approach for risk weighting many categories of assets. These categories generally range from 0% for U.S. government and agency securities, to 600% for certain equity exposures.

With respect to CBNA and CBPA, the U.S. Basel III rules also revise the “prompt corrective action” regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below in “Federal Deposit Insurance Act.”

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as “Basel IV”). Among other things, these standards revise the Basel Committee’s standardized approach for credit risk (including recalibrating risk weights and introducing new capital requirements for certain “unconditionally cancellable commitments,” such as unused credit card and home equity lines of credit) and provide a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. Basel III rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to CFG, CBNA or CBPA. The impact of Basel IV on CFG, CBNA and CBPA will depend on the manner in which it is implemented by the FRB, OCC and FDIC.

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### ***Liquidity Standards***

We are subject to the Basel III-based U.S. LCR rule, which is a quantitative liquidity metric designed to ensure that a covered bank or bank holding company maintains an adequate level of unencumbered high-quality liquid assets to cover expected net cash outflows over a 30-day time horizon under an acute liquidity stress scenario. The LCR rule applies in its most comprehensive form only to advanced approaches bank holding companies (that is, those with \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance sheet foreign exposures) and depository institution subsidiaries of such bank holding companies. The LCR rule applies in a modified form, to bank holding companies such as the Parent Company that have \$50 billion or more in total consolidated assets but that do not meet the thresholds for using the advanced approaches. The U.S. version of the LCR differs in certain respects from the Basel Committee's version; the U.S. version includes a narrower definition of high-quality liquid assets, different prescribed cash inflow and outflow assumptions for certain types of instruments and transactions, and a shorter phase-in schedule that began on January 1, 2015 and is now complete. The modified LCR requires us to maintain a ratio of high-quality liquid assets to net cash outflows of 70% (compared to 100% in the comprehensive LCR applicable to advanced approaches bank holding companies). At December 31, 2017, our LCR on the modified basis was above the minimum requirement.

As a modified LCR company, we are required to calculate our LCR on a monthly basis. If a covered company fails to meet the minimum required LCR, it must promptly notify its primary federal banking regulator and may be required to take remedial actions. In December 2016, the FRB issued a final rule that requires bank holding companies to disclose publicly, on a quarterly basis, quantitative and qualitative information about certain components of their LCR. For modified LCR bank holding companies, this disclosure requirement begins with the fourth quarter of 2018.

The Basel III framework also includes a second liquidity standard, the NSFR, which is designed to promote more medium- and long-term funding of the assets and activities of banks over a one-year time horizon. In May 2016, the federal banking regulators issued a proposed rule that would implement the NSFR for large U.S. banking organizations. Under the proposed rule, the most stringent requirements would apply to advanced approaches bank holding companies, and would require such organizations to maintain a minimum NSFR of 1.0 on an ongoing basis, calculated by dividing the organization's available stable funding ("ASF") by its required stable funding ("RSF"). Bank holding companies with \$50 billion or more in total consolidated assets but that are not advanced approaches bank holding companies would be subject to a modified NSFR requirement which would require such bank holding companies to maintain a minimum NSFR of 0.7 on an ongoing basis. Under the proposed rule, a banking organization's ASF would be calculated by applying specified standard weightings to its equity and liabilities based on their expected stability over a one-year time horizon and its RSF would be calculated by applying specified standardized weightings to its assets, derivative exposures and commitments based on their liquidity characteristics over the same one-year time horizon. We continue to evaluate the potential effects of this proposal on our operations.

Finally, per the liquidity rules included in the FRB's enhanced prudential standards adopted pursuant to Section 165 of the Dodd-Frank Act (referred to above under "—Financial Regulatory Reform"), we are required to maintain a buffer of highly liquid assets based on projected funding needs for 30 days. The liquidity buffer is in addition to the federal banking regulators' LCR rule and is described by the FRB as being "complementary" to the LCR.

### ***Capital Planning and Stress Testing Requirements***

Bank holding companies with \$50 billion or more in total consolidated assets are required to develop and maintain a capital plan and to submit the capital plan to the FRB for review under the CCAR process. CCAR is designed to evaluate a bank holding company's capital adequacy, capital adequacy process and planned capital distributions, such as dividend payments and common stock repurchases. As part of CCAR, the FRB evaluates whether a bank holding company has sufficient capital to continue operations under various hypothetical scenarios of economic and financial market stress. These scenarios include both bank holding company- and FRB- developed scenarios, including an "adverse" and a "severely adverse" stress scenario developed by the FRB. The FRB will also evaluate whether the bank holding company has robust, forward-looking capital planning processes that account for the bank holding company's unique risks. The financial regulation reform bill mentioned above would not address the applicability of CCAR to bank holding companies with total consolidated assets of \$50 billion or more; however, if enacted, the Federal Reserve could revise the CCAR process in a manner consistent with the legislation's modification of the stress testing standards.

The capital plan must cover a "planning horizon" of at least nine quarters (beginning with the quarter preceding the submission of the plan, or January 1, 2018 for the capital plans required to be filed on or before April 5, 2018). Bank holding companies are also subject to an ongoing requirement to revise and resubmit their capital plans upon the occurrence of certain events specified by rule, or when required by the FRB. The FRB determines

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whether to object to a company's capital plan based on whether the plan passes quantitative tests requiring that the company demonstrate that it will continue to meet all minimum capital requirements applicable to it over the nine-quarter planning horizon under all applicable scenarios. For capital plans in CCAR submissions prior to April 5, 2017, the FRB was also able to object to the capital plan of any bank holding company subject to CCAR based on qualitative tests (such as concerns with the assumptions, analysis or methodologies of the capital plan).

In January 2017, the FRB amended its capital plan rule to eliminate its ability to object to the capital plan of a "large and noncomplex" bank holding company (that is, one that has less than \$250 billion in total consolidated assets, less than \$75 billion in nonbank assets, and that is not classified as a global systemically important bank holding company under the FRB's capital rules) on qualitative grounds. However, the FRB will incorporate an assessment of the qualitative aspects of the firm's capital planning process into regular, ongoing supervisory activities and through targeted, horizontal assessments of particular aspects of capital planning.

In addition to other limitations, our ability to make any capital distributions (including dividends and share repurchases) is contingent on the FRB's non-objection to our capital plan. Should the FRB object to a capital plan, a bank holding company may not make any capital distribution other than those capital distributions to which the FRB has indicated its non-objection in writing. Participating firms are required to submit their capital plans and stress testing results to the FRB on or before April 5<sup>th</sup> of each year, and the FRB will publish the results of its supervisory CCAR review of submitted capital plans by June 30<sup>th</sup> of each year. In addition, the FRB will separately publish the results of its supervisory stress test under both the supervisory severely adverse and adverse scenarios. The information to be released will include, among other things, the FRB's projection of company-specific information, including post-stress capital ratios and the minimum value of these ratios over the planning horizon.

The FRB's capital planning and stress testing rules generally limit our ability to make quarterly capital distributions in the form of dividends and share repurchases, if the amount of our actual cumulative quarterly capital issuances of instruments that qualify as regulatory capital are less than we indicated in our submitted capital plan as to which we received a non-objection from the FRB. Due to the importance and intensity of the stress tests and the CCAR process, we have dedicated significant resources to comply with stress testing and capital planning requirements and expect to continue to do so in the future.

### ***Standards for Safety and Soundness***

The FDIA requires the FRB, OCC and FDIC to prescribe operational and managerial standards for all insured depository institutions, including CBNA and CBPA. The agencies have adopted regulations and interagency guidelines which set forth the safety and soundness standards used to identify and address problems at insured depository institutions before capital becomes impaired. If an agency determines that a bank fails to satisfy any standard, it may require the bank to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and soundness compliance plans. If, after being notified to submit a compliance plan, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the FDIA. See "Federal Deposit Insurance Act" below. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

CBPA is also subject to supervision by the PA Banking Department. The PA Banking Department may order any Pennsylvania-chartered savings bank to discontinue any violation of law or unsafe or unsound business practice. It may also order the termination of any trustee, officer, attorney or employee of a savings bank engaged in objectionable activity.

### ***Federal Deposit Insurance Act***

The FDIA requires, among other things, that the federal banking regulators take "prompt corrective action" with respect to depository institutions that do not meet minimum capital requirements, as described above in "Capital." The FDIA sets forth the following five capital categories: "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital category depends upon how its capital levels compare with various relevant capital measures and certain other factors that are established by regulation. The federal banking regulators must take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions that are undercapitalized, significantly undercapitalized or critically undercapitalized, with the actions becoming more restrictive and punitive the lower the institution's capital category. Under existing rules, an institution that is not an advanced approaches institution is deemed to be "well capitalized" if it has (i) a CET1 ratio of at least 6.5%, (ii)

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a tier 1 capital ratio of at least 8%, (iii) a total capital ratio of at least 10%, and (iv) a tier 1 leverage ratio of at least 5%.

The FDIA's prompt corrective action provisions only apply to depository institutions and not to bank holding companies. The FRB's regulations applicable to bank holding companies separately define "well capitalized" for bank holding companies to require maintaining a tier 1 capital ratio of at least 6% and a total capital ratio of at least 10%. As described above under "—Financial Holding Company Regulation", a financial holding company that is not well-capitalized and well-managed (or whose bank subsidiaries are not well capitalized and well managed) under applicable prompt corrective action standards may be restricted in certain of its activities and ultimately may lose financial holding company status. As of December 31, 2017, the Parent Company, CBNA and CBPA were well-capitalized.

The FDIA prohibits insured banks from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited), unless it is "well-capitalized," or it is "adequately capitalized" and receives a waiver from the FDIC. A bank that is "adequately capitalized" and that accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates. The FDIA imposes no such restrictions on a bank that is "well-capitalized."

### **Deposit Insurance**

The FDIA requires CBNA and CBPA to pay deposit insurance assessments. FDIC assessment rates for large institutions are calculated based on one of two scorecards, one for most large institutions that have more than \$10 billion in assets and another for "highly complex" institutions that have over \$50 billion in assets and are fully owned by a parent with over \$500 billion in assets. Each scorecard has a performance score and a loss-severity score that are combined to produce a total score, which is translated into an initial assessment rate. In calculating these scores, the FDIC utilizes the CAMELS ratings and forward-looking financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC has the ability to make discretionary adjustments to the total score, up or down, based upon significant risk factors that are not adequately captured in the scorecard. The total score is then translated to an initial base assessment rate on a non-linear, sharply-increasing scale. Since July 1, 2016, for large institutions the initial base assessment rate has ranged from 3 to 30 basis points on an annualized basis. After the effect of potential base-rate adjustments, the total base assessment rate could range from 1.5 to 40 basis points on an annualized basis.

The deposit insurance assessment is calculated based on average consolidated total assets less average tangible equity of the insured depository institution during the assessment period. Deposit insurance assessments are also affected by the minimum reserve ratio with respect to the Deposit Insurance Fund ("DIF"). In March 2016, the FDIC issued a final rule that imposes on insured depository institutions with at least \$10 billion in assets, including CBNA and CBPA, a surcharge of 4.5 basis points per annum until the earlier of the quarter that the DIF reaches the required reserve ratio of 1.35% and December 31, 2018, which the FDIC estimates will take approximately two years. Under the rule, if the reserve ratio does not reach 1.35% by December 31, 2018, the FDIC will impose a shortfall assessment on larger depository institutions, including CBNA and CBPA, in the first quarter of 2019 to be collected on June 30, 2019. The rule has resulted in higher deposit insurance assessments for both CBNA and CBPA.

Under the FDIA, banks may also be held liable by the FDIC for certain losses incurred, or reasonably expected to be incurred, by the DIF. Either CBNA or CBPA may be liable for losses caused by the other's default and also may be liable for any assistance provided by the FDIC to the other if in danger of default.

### **Dividends**

Various federal and statutory provisions and regulations, as well as regulatory expectations, limit the amount of dividends that we and our subsidiaries may pay.

Our payment of dividends to our stockholders is subject to the oversight of the FRB. In particular, the dividend policies and share repurchases of a large bank holding company are reviewed by the FRB based on capital plans submitted as part of the CCAR process and stress tests as submitted by the bank holding company, as discussed above, and will be assessed against, among other things, the bank holding company's ability to achieve the required capital ratios under the Basel III-based U.S. revised capital rules as they are phased in by U.S. regulators. In addition to other limitations, our ability to make any capital distributions (including dividends and share repurchases) is contingent on the FRB's non-objection to such planned distributions included in our submitted capital plan. See "—Capital" and "—Capital Planning and Stress Testing Requirements" above.

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Dividends payable by CBNA, as a national bank subsidiary, are limited to the lesser of the amount calculated under a “recent earnings” test and an “undivided profits” test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year’s net income combined with the retained net income of the two preceding years, less any required transfers to surplus, unless the national bank obtains the approval of the OCC. Under the undivided profits test, a dividend may not be paid in excess of the entity’s “undivided profits” (generally, accumulated net profits that have not been paid out as dividends or transferred to surplus). Federal bank regulatory agencies have issued policy statements which provide that FDIC-insured depository institutions and their holding companies should generally pay dividends only out of their current operating earnings. Under Pennsylvania law, CBPA may declare and pay dividends only out of accumulated net earnings and only if (i) any required transfer to surplus has been made prior to declaration of the dividend and (ii) payment of the dividend will not reduce surplus.

### ***Support of Subsidiary Banks***

Under Section 616 of the Dodd-Frank Act, which codifies the FRB’s long-standing “source of strength” doctrine, we must serve as a source of financial and managerial strength for our depository institution subsidiaries. The statute defines “source of financial strength” as the ability to provide financial assistance in the event of the financial distress at the insured depository institution. The FRB may require that we provide such support at times even when we may not have the financial resources to do so, or when doing so may not serve our interests or those of our shareholders or creditors. In addition, any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

### ***Transactions with Affiliates and Insiders***

Sections 23A and 23B of the Federal Reserve Act and related FRB rules, including its Regulation W, restrict our bank subsidiaries from extending credit to, or engaging in certain other transactions with, us and our non-bank subsidiaries. These restrictions place limits on certain specified “covered transactions” between these subsidiary banks and their affiliates, which must be limited to 10% of a bank’s capital and surplus for any one affiliate and 20% for all affiliates. Furthermore, within the foregoing limitations as to amount, certain covered transactions must meet specified collateral requirements ranging from 100% to 130%. Covered transactions are defined to include, among other things, a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the FRB) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, derivatives transactions and securities lending transactions where the bank has credit exposure to an affiliate, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. All covered transactions, including certain additional transactions (such as transactions with a third party in which an affiliate has a financial interest), must be conducted on market terms. The Dodd-Frank Act significantly enhanced and expanded the scope and coverage of these limitations, in particular, by including within its scope derivative transactions by and between CBNA or CBPA or their subsidiaries and the Parent Company or its other subsidiaries. The FRB enforces these restrictions and we are audited for compliance.

Section 23B prohibits an institution from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with non-affiliated companies. Except for limitations on low-quality asset purchases and transactions that are deemed to be unsafe or unsound, Regulation W generally excludes affiliated depository institutions from treatment as affiliates. Transactions between a bank and any of its subsidiaries that are engaged in certain financial activities may be subject to the affiliated transaction limits. The FRB also may designate banking subsidiaries as affiliates.

Pursuant to FRB Regulation O, we are also subject to quantitative restrictions on extensions of credit to executive officers, directors, principal stockholders and their related interests. In general, such extensions of credit (i) may not exceed certain dollar limitations, (ii) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (iii) must not involve more than the normal risk of repayment or present other unfavorable features. Certain extensions of credit also require the approval of our Board.

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### ***Volcker Rule***

The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in, sponsoring and having certain relationships with private funds such as hedge funds or private equity funds that would be an investment company for purposes of the Investment Company Act of 1940 but for the exclusions in sections 3(c)(1) or 3(c)(7) of that act, both subject to certain limited exceptions. The statutory provision is commonly called the “Volcker Rule.” In December 2013, the FRB, OCC, FDIC, the SEC and the Commodity Futures Trading Commission (“CFTC”) issued final rules to implement the Volcker Rule, which became effective in July 2015. The final rules require that large bank holding companies design and implement compliance programs to ensure adherence to the Volcker Rule’s prohibitions. Development and monitoring of the required compliance program may require the expenditure of resources and management attention.

### ***Consumer Financial Protection Regulations***

The retail activities of banks are subject to a variety of statutes and regulations designed to protect consumers and promote lending to various sectors of the economy and population. These laws include, but are not limited to, the Equal Credit Opportunity Act, the Fair Debt Collection Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Service Members Civil Relief Act, the Expected Funds Availability Act, the Right to Financial Privacy Act, the Truth in Savings Act, the Electronic Funds Transfer Act, and their respective federal regulations and state law counterparts.

In addition to these federal laws and regulations, the guidance and interpretations of the various federal agencies charged with the responsibility of implementing such regulations also influences loan and deposit operations.

The CFPB has broad rulemaking, supervisory, examination and enforcement authority over various consumer financial protection laws, including the laws referenced above, fair lending laws and certain other statutes. The CFPB also has examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets, including the authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products.

The Dodd-Frank Act permits states to adopt stricter consumer protection laws and standards that are more stringent than those adopted at the federal level and in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

The CFPB implemented a number of significant rules which will impact nearly every aspect of the life cycle of a residential mortgage. The final rules require banks to, among other things: (i) develop and implement procedures to ensure compliance with a new “ability to repay” standard and identify whether a loan meets a new definition for a “qualified mortgage;” (ii) implement new or revised disclosures, policies and procedures for servicing mortgages including, but not limited to, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower’s principal residence; (iii) comply with additional restrictions on mortgage loan originator hiring and compensation; (iv) comply with new disclosure requirements and standards for appraisals and certain financial products; and (v) maintain escrow accounts for “higher priced mortgage loans” for a longer period of time.

As previously reported, CBNA entered into a consent order with the OCC in November 2015 in connection with past billing practices. All financial penalties and remediation associated with this legacy matter have been paid and completed.

### ***Protection of Customer Personal Information and Cybersecurity***

The privacy provisions of GLBA generally prohibit financial institutions, including us, from disclosing nonpublic personal financial information of consumer customers to third parties for certain purposes (primarily marketing) unless customers have the opportunity to opt out of the disclosure. The Fair Credit Reporting Act restricts information sharing among affiliates for marketing purposes. Both the Fair Credit Reporting Act and Regulation V, issued by the FRB, govern the use and provision of information to consumer reporting agencies.

In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers’ accessing internet-based services of the financial institution. The other statement indicates that a financial institution’s management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution’s operations after a cyber attack involving destructive malware. A financial institution is also expected to develop

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appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties. For a further discussion of risks related to cybersecurity, see “Risk Factors” in Part I, Item 1A, included in this report.

In October 2016, federal regulators jointly issued an advance notice of proposed rulemaking on enhanced cyber risk management standards that are intended to increase the operational resilience of large and interconnected entities under their supervision. Once established, the enhanced cyber risk management standards would help to reduce the potential impact of a cyber-attack or other cyber-related failure on the financial system. The advance notice of proposed rulemaking addresses five categories of cyber standards: (i) cyber risk governance; (ii) cyber risk management; (iii) internal dependency management; (iv) external dependency management; and (v) incident response, cyber resilience, and situational awareness. We will continue to monitor any developments related to this proposed rulemaking.

State regulators have also been increasingly active in implementing privacy and cybersecurity standards and regulations. In 2017, several states adopted regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements. Many states have also recently implemented or modified their data breach notification and data privacy requirements. We expect this trend of state-level activity to continue, and are continually monitoring developments in the states in which we operate.

### ***Community Reinvestment Act Requirements***

The CRA requires banking regulators to evaluate us and our banking subsidiaries in meeting the credit needs of our local communities, including providing credit to individuals residing in low- and moderate- income neighborhoods. The CRA requires each appropriate federal bank regulatory agency, in connection with its examination of a depository institution, to assess such institution’s record in assessing and meeting the credit needs of the community served by that institution and assign ratings. The regulatory agency’s assessment of the institution’s record is made available to the public. These evaluations are also considered in evaluating mergers, acquisitions and applications to open a branch or facility and, in the case of a bank holding company that has elected financial holding company status, a CRA rating of “satisfactory” is required to commence certain new financial activities or to acquire a company engaged in such activities. We received a rating of “satisfactory” in our most-recent CRA evaluation.

### ***Compensation***

Our compensation practices are subject to oversight by the FRB. The federal banking regulators have issued guidance designed to ensure that incentive compensation arrangements at banking organizations take into account risk and are consistent with safe and sound practices. The guidance sets forth the following three key principles with respect to incentive compensation arrangements: (i) the arrangements should provide employees with incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk; (ii) the arrangements should be compatible with effective controls and risk management; and (iii) the arrangements should be supported by strong corporate governance. The guidance provides that supervisory findings with respect to incentive compensation will be incorporated, as appropriate, into the organization’s supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The guidance also provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk management, control or governance processes pose a risk to the organization’s safety and soundness.

The U.S. financial regulators, including the FRB and the SEC, have jointly proposed regulations to, among other things, prohibit incentive-based compensation arrangements that encourage inappropriate risk taking at specified regulated entities having at least \$1 billion in total assets (including the Parent Company and CBNA). These regulations were initially proposed in 2011 and re-proposed in 2016. They have not been finalized and the timing of final adoption and the form of any final regulations is uncertain. If the rules are adopted in the form proposed, they may restrict our flexibility with respect to the manner in which we structure compensation and adversely affect our ability to compete for talent.

### ***Anti-Money Laundering***

The USA PATRIOT Act, enacted in 2001 and renewed in 2006, substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Institutions must

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maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. We are prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence in dealings with foreign financial institutions and foreign customers. We also must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions. Recent laws provide law enforcement authorities with increased access to financial information maintained by banks.

The USA PATRIOT Act also provides for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering. The statute also creates enhanced information collection tools and enforcement mechanics for the U.S. government, including: (i) requiring standards for verifying customer identification at account opening; (ii) promulgating rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (iii) requiring reports by non-financial trades and businesses filed with the Treasury's Financial Crimes Enforcement Network ("FinCEN") for transactions exceeding \$10,000; and (iv) mandating the filing of suspicious activities reports if a bank believes a customer may be violating U.S. laws and regulations. The statute also requires enhanced due diligence requirements for financial institutions that administer, maintain or manage private bank accounts or correspondent accounts for non-U.S. persons. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications.

In 2014, FinCEN, which drafts regulations implementing the USA PATRIOT Act and other anti-money laundering and bank secrecy act legislation, proposed a rule that would require financial institutions to obtain beneficial ownership information with respect to legal entities with which such institutions conduct business, subject to certain exclusions and exemptions. In May 2016, FinCEN issued its final rules with respect to customer due diligence requirements, and financial institutions that are subject to these final rules are required to comply by May 2018. Bank regulators are focusing their examinations on anti-money laundering compliance, and we continue to monitor and augment, where necessary, our anti-money laundering compliance programs.

### ***Office of Foreign Assets Control Regulation***

The U.S. has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control. The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to, making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. OFAC publishes, and routinely updates, lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, including the Specially Designated Nationals and Blocked Persons. We are responsible for, among other things, blocking accounts of and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. If we find a name on any transaction, account or wire transfer that is on an OFAC list, we must freeze such account, file a suspicious activity report and notify the appropriate authorities. Failure to comply with these sanctions could have serious legal and reputational consequences.

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### ***Regulation of Broker-Dealers***

Our subsidiary CCMI is a registered broker-dealer with the SEC and, as a result, is subject to regulation and examination by the SEC, FINRA and other self-regulatory organizations. These regulations cover a broad range of issues, including capital requirements; sales and trading practices; use of client funds and securities; the conduct of directors, officers and employees; record-keeping and recording; supervisory procedures to prevent improper trading on material non-public information; qualification and licensing of sales personnel; and limitations on the extension of credit in securities transactions. In addition to federal registration, state securities commissions require the registration of certain broker-dealers.

### ***Heightened Risk Governance Standards***

In September 2014, the OCC finalized guidelines that establish heightened risk governance standards for large national banks with average total consolidated assets of \$50 billion or more, including CBNA. The guidelines set forth minimum standards for the design and implementation of a bank's risk governance framework, and minimum standards for oversight of that framework by a bank's board of directors. The guidelines are an extension of the OCC's "heightened expectations" for large banks that the OCC began informally communicating to certain banks in 2010. The guidelines are intended to protect the safety and soundness of covered banks and improve bank examiners' ability to assess compliance with the OCC's expectations. Under the guidelines, a bank could use certain components of its parent company's risk governance framework, but the framework must ensure that the bank's risk profile is easily distinguished and separate from the parent's for risk management and supervisory purposes. A bank's board of directors is required to have two members who are independent of the bank and parent company management. A bank's board of directors is responsible for ensuring that the risk governance framework meets the standards in the guidelines, providing active oversight and a credible challenge to management's recommendations and decisions and ensuring that the parent company decisions do not jeopardize the safety and soundness of the bank.

### ***Anti-Tying Restrictions***

Generally, a bank may not extend credit, lease, sell property or furnish any services or fix or vary the consideration for them on the condition that (i) the customer obtain or provide some additional credit, property or services from or to that bank or its bank holding company or their subsidiaries or (ii) the customer not obtain some other credit, property or services from a competitor, except to the extent reasonable conditions are imposed to assure the soundness of the credit extended. A bank may however, offer combined-balance products and may otherwise offer more favorable terms if a customer obtains two or more traditional bank products. Certain foreign transactions are exempt from the general rule.

### ***Commercial Real Estate Lending***

Lending operations that involve concentrations of commercial real estate loans are subject to enhanced scrutiny by federal banking regulators. Regulators have advised financial institutions of the risks posed by commercial real estate lending concentrations. Such loans generally include land development, construction loans and loans secured by multifamily property and nonfarm, nonresidential real property where the primary source of repayment is derived from rental income associated with the property. The relevant regulatory guidance prescribes the following guidelines for examiners to help identify institutions that are potentially exposed to concentration risk and may warrant greater supervisory scrutiny:

- Total reported loans for construction, land development and other land represent 100% or more of the institution's total capital, or
- Total commercial real estate loans represent 300% or more of the institution's total capital, and the outstanding balance of the institution's commercial real estate loan portfolio has increased by 50% or more during the prior 36 months.

In addition, the Dodd-Frank Act contains provisions that may cause us to reduce the amount of our commercial real estate lending and increase the cost of borrowing, including rules relating to risk retention of securitized assets. Section 941 of the Dodd-Frank Act and implementing rules adopted by the U.S. financial services regulators, including the federal banking regulators and the SEC, require, among other things, a loan originator or a securitizer of asset-backed securities to retain a percentage of the credit risk of securitized assets. We continue to analyze the impact that such rules have on our business.

### ***Intellectual Property***

In the highly competitive banking industry in which we operate, trademarks, service marks, trade names and logos are important to the success of our business. We own and license a variety of trademarks, service marks,

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trade names, logos and pending registrations and are spending significant resources to develop our stand-alone brands. In connection with our IPO, on September 29, 2014, we entered into a trademark license agreement, pursuant to which we were granted a limited license to use The Royal Bank of Scotland Group plc daisywheel trademark for an initial term of five years and, at our option, up to ten years.

### Employees

As of December 31, 2017, we had approximately 17,600 FTEs, including approximately 17,100 full-time colleagues, 200 part-time colleagues and 300 temporary employees. None of our employees are parties to a collective bargaining agreement. We consider our relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements.

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## RISK FACTORS

### ITEM 1A. RISK FACTORS

*We are subject to a number of risks potentially impacting our business, financial condition, results of operations and cash flows. As a financial services organization, certain elements of risk are inherent in our transactions and operations and are present in the business decisions we make. We, therefore, encounter risk as part of the normal course of our business and we design risk management processes to help manage these risks. Our success is dependent on our ability to identify, understand and manage the risks presented by our business activities so that we can appropriately balance revenue generation and profitability. These risks include, but are not limited to, credit risk, market risk, liquidity risk, operational risk, model risk, technology, regulatory and legal risk and strategic and reputational risk. We discuss our principal risk management processes and, in appropriate places, related historical performance in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Governance” section in Part II, Item 7, included in this report.*

*You should carefully consider the following risk factors that may affect our business, financial condition and results of operations. Other factors that could affect our business, financial condition and results of operation are discussed in the “Forward-Looking Statements” section above. However, there may be additional risks that are not presently material or known, and factors besides those discussed below, or in this or other reports that we file or furnish with the SEC, that could also adversely affect us.*

#### **Risks Related to Our Business**

##### ***We may not be able to successfully execute our business strategy.***

Our business strategy is designed to maximize the full potential of our business and drive sustainable growth and enhanced profitability, and our success rests on our ability to: (i) maintain a high-performing, customer-centric organization; (ii) develop differentiated value propositions to acquire, deepen, and retain core customer segments; (iii) build excellent capabilities that will allow us to stand out from our competitors; (iv) operate with financial discipline and a mindset of continuous improvement to self-fund investments; (v) prudently grow and optimize our balance sheet; (vi) modernize our technology and operational models to improve delivery, agility and speed to market; and (vii) embed risk management within our culture and our operations. Our future success and the value of our stock will depend, in part, on our ability to effectively implement our business strategy. There are risks and uncertainties, many of which are not within our control, associated with each element of our strategy. If we are not able to successfully execute our business strategy, we may never achieve our financial performance goals and any shortfall may be material. See “Business Strategy” in Part I, Item 1 — Business, included in this report for further information.

***Supervisory requirements and expectations on us as a financial holding company and a bank holding company and any regulator-imposed limits on our activities could adversely affect our ability to implement our strategic plan, expand our business, continue to improve our financial performance and make capital distributions to our stockholders.***

In recent years, the federal banking agencies (the FRB, the OCC and the FDIC), as well as the CFPB have generally taken a more stringent approach to supervising and regulating financial institutions and financial products and services over which they exercise their respective supervisory authorities. This increased supervisory stringency is a result of and in addition to legislation aimed at regulatory reform, such as the Dodd-Frank Act, and the increased capital and liquidity requirements imposed by the U.S. implementation of the Basel III framework. We, our two banking subsidiaries and our products and services are all subject to greater supervisory scrutiny and enhanced supervisory requirements and expectations. We expect to continue to face this heightened level of supervisory scrutiny and enhanced supervisory requirements in the foreseeable future.

In addition, as part of the supervisory and examination process, if we are unsuccessful in meeting the supervisory requirements and expectations that apply to us and our banking subsidiaries, regulatory agencies may from time to time take supervisory actions against us that may not be publicly disclosed. Such actions may include restrictions on our activities or the activities of our subsidiaries, informal (nonpublic) or formal (public) supervisory actions or public enforcement actions, including the payment of civil money penalties, which could increase our costs and limit our ability to implement our strategic plans and expand our business, and as a result could have a material adverse effect on our business, financial condition or results of operations.

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### ***Changes in interest rates may have an adverse effect on our profitability.***

Net interest income historically has been, and in the near-to-medium term we anticipate that it will remain, a significant component of our total revenue. This is due to the fact that a high percentage of our assets and liabilities have been and will likely continue to be in the form of interest-bearing or interest-related instruments. Changes in interest rates can have a material effect on many areas of our business, including net interest income, deposit costs, loan volume and delinquency, and the value of our mortgage servicing rights. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Open Market Committee. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect our ability to originate loans and obtain deposits and the fair value of our financial assets and liabilities. If the interest rates on our interest-bearing liabilities increase at a faster pace than the interest rates on our interest earning assets, our net interest income may decline and, with it, a decline in our earnings may occur. Our net interest income and our earnings would be similarly affected if the interest rates on our interest earning assets declined at a faster pace than the interest rates on our interest-bearing liabilities.

We cannot control or predict with certainty changes in interest rates. Global, national, regional and local economic conditions, competitive pressures and the policies of regulatory authorities, including monetary policies of the FRB, affect interest income and interest expense. Although we have policies and procedures designed to manage the risks associated with changes in market interest rates, as further discussed under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Governance” in Part II, Item 7, included in this report, changes in interest rates still may have an adverse effect on our profitability.

If our ongoing assumptions regarding borrower or depositor behavior are wrong or overall economic conditions are significantly different than we anticipate, then our risk mitigation may be insufficient to protect against interest rate risk and our net income would be adversely affected.

***We could fail to attract, retain or motivate highly skilled and qualified personnel, including our senior management, other key employees or members of our Board, which could impair our ability to successfully execute our strategic plan and otherwise adversely affect our business.***

A cornerstone of our strategic plan involves the hiring of highly skilled and qualified personnel. Accordingly, our ability to implement our strategic plan and our future success depends on our ability to attract, retain and motivate highly skilled and qualified personnel, including our senior management and other key employees and directors, competitive with our peers. The marketplace for skilled personnel is becoming more competitive, which means the cost of hiring, incentivizing and retaining skilled personnel may continue to increase. The failure to attract or retain, including as a result of an untimely death or illness of key personnel, or replace a sufficient number of appropriately skilled and key personnel could place us at a significant competitive disadvantage and prevent us from successfully implementing our strategy, which could impair our ability to implement our strategic plan successfully, achieve our performance targets and otherwise have a material adverse effect on our business, financial condition and results of operations.

In May 2016, the FRB, other federal banking agencies and the Securities and Exchange Commission jointly published re-proposed rules (originally proposed in April 2011) designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at covered financial institutions, which includes a bank or bank holding company with \$1 billion or more of assets. Although the re-proposed rules include more stringent requirements, particularly for larger institutions, it cannot be determined at this time whether or when a final rule will be adopted. Compliance with such a final rule may substantially affect the manner in which we structure compensation for our executives and other employees. Depending on the nature and application of the final rules, we may not be able to successfully compete with certain financial institutions and other companies that are not subject to some or all of the rules to retain and attract executives and other high performing employees. If this were to occur, our business, financial condition and results of operations could be adversely affected, perhaps materially.

***Our ability to meet our obligations, and the cost of funds to do so, depend on our ability to access identified sources of liquidity at a reasonable cost.***

Liquidity risk is the risk that we will not be able to meet our obligations, including funding commitments, as they come due. This risk is inherent in our operations and can be heightened by a number of factors, including

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an over-reliance on a particular source of funding (including, for example, secured FHLB advances), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Like many banking groups, our reliance on customer deposits to meet a considerable portion of our funding has grown over recent years, and we continue to seek to increase the proportion of our funding represented by customer deposits. However, these deposits are subject to fluctuation due to certain factors outside our control, such as increasing competitive pressures for retail or corporate customer deposits, changes in interest rates and returns on other investment classes, or a loss of confidence by customers in us or in the banking sector generally which could result in a significant outflow of deposits within a short period of time. To the extent there is heightened competition among U.S. banks for retail customer deposits, this competition may increase the cost of procuring new deposits and/or retaining existing deposits, and otherwise negatively affect our ability to grow our deposit base. An inability to grow, or any material decrease in, our deposits could have a material adverse effect on our ability to satisfy our liquidity needs.

Maintaining a diverse and appropriate funding strategy for our assets consistent with our wider strategic risk appetite and plan remains challenging, and any tightening of credit markets could have a material adverse impact on us. In particular, there is a risk that corporate and financial institution counterparties may seek to reduce their credit exposures to banks and other financial institutions (for example, reductions in unsecured deposits supplied by these counterparties), which may cause funding from these sources to no longer be available. Under these circumstances, we may need to seek funds from alternative sources, potentially at higher costs than has previously been the case, or may be required to consider disposals of other assets not previously identified for disposal, in order to reduce our funding commitments.

***A reduction in our credit ratings, which are based on a number of factors, could have a material adverse effect on our business, financial condition and results of operations.***

Credit ratings affect the cost and other terms upon which we are able to obtain funding. Rating agencies regularly evaluate us, and their ratings are based on a number of factors, including our financial strength. Other factors considered by rating agencies include conditions affecting the financial services industry generally. Any downgrade in our ratings would likely increase our borrowing costs, could limit our access to capital markets, and otherwise adversely affect our business. For example, a ratings downgrade could adversely affect our ability to sell or market certain of our securities, including long-term debt, engage in certain longer-term derivatives transactions and retain our customers, particularly corporate customers who may require a minimum rating threshold in order to place funds with us. In addition, under the terms of certain of our derivatives contracts, we may be required to maintain a minimum credit rating or have to post additional collateral or terminate such contracts. Any of these results of a rating downgrade could increase our cost of funding, reduce our liquidity and have adverse effects on our business, financial condition and results of operations.

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***Our financial performance may be adversely affected by deterioration in borrower credit quality, particularly in the New England, Mid-Atlantic and Midwest regions, where our operations are concentrated.***

We have exposure to many different industries and risks arising from actual or perceived changes in credit quality and uncertainty over the recoverability of amounts due from borrowers is inherent in our businesses. Our exposure may be exacerbated by the geographic concentration of our operations, which are predominately located in the New England, Mid-Atlantic and Midwest regions. The credit quality of our borrowers may deteriorate for a number of reasons that are outside our control, including as a result of prevailing economic and market conditions and asset valuation. The trends and risks affecting borrower credit quality, particularly in the New England, Mid-Atlantic and Midwest regions, have caused, and in the future may cause, us to experience impairment charges, increased repurchase demands, higher costs, additional write-downs and losses and an inability to engage in routine funding transactions, which could have a material adverse effect on our business, financial condition and results of operations.

***Our framework for managing risks may not be effective in mitigating risk and loss.***

Our risk management framework is made up of various processes and strategies to manage our risk exposure. The framework to manage risk, including the framework's underlying assumptions, may not be effective under all conditions and circumstances. If the risk management framework proves ineffective, we could suffer unexpected losses and could be materially adversely affected.

One of the main types of risks inherent in our business is credit risk. An important feature of our credit risk management system is to employ an internal credit risk control system through which we identify, measure, monitor and mitigate existing and emerging credit risk of our customers. As this process involves detailed analyses of the customer or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a customer or credit risk, which may result in our exposure to higher credit risks than indicated by our risk rating system.

In addition, we have undertaken certain actions to enhance our credit policies and guidelines to address potential risks associated with particular industries or types of customers, as discussed in more detail under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Governance" and " — Market Risk" in Part II, Item 7, included in this report. However, we may not be able to effectively implement these initiatives, or consistently follow and refine our credit risk management system. If any of the foregoing were to occur, it may result in an increase in the level of nonperforming loans and a higher risk exposure for us, which could have a material adverse effect on us.

***Our financial and accounting estimates and risk management framework rely on analytical forecasting and models.***

The processes we use to estimate our inherent loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical and forecasting models. Some of our tools and metrics for managing risk are based upon our use of observed historical market behavior. We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy and calculating regulatory capital levels, as well as estimating the value of financial instruments and balance sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating such models will be adversely affected due to the inadequacy of that information. Moreover, our models may fail to predict future risk exposures if the information used in the model is incorrect, obsolete or not sufficiently comparable to actual events as they occur. We seek to incorporate appropriate historical data in our models, but the range of market values and behaviors reflected in any period of historical data is not at all times predictive of future developments in any particular period and the period of data we incorporate into our models may turn out to be inappropriate for the future period being modeled. In such case, our ability to manage risk would be limited and our risk exposure and losses could be significantly greater than our models indicated. In addition, if existing or potential customers believe our risk management is inadequate, they could take their business elsewhere. This could harm our reputation as well as our revenues and profits. Finally, information we provide to our regulators based on poorly designed or implemented models could also be inaccurate or misleading. Some of the decisions that our regulators make, including those related to capital distributions to our stockholders, could be affected adversely due to their perception that the quality of the models used to generate the relevant information is insufficient.

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***The preparation of our financial statements requires the use of estimates that may vary from actual results. Particularly, various factors may cause our ALLL to increase.***

The preparation of audited consolidated financial statements in conformity with GAAP requires management to make significant estimates that affect the financial statements. Our most critical accounting estimate is the ALLL. The ALLL is a reserve established through a provision for loan and lease losses charged to expense and represents our estimate of incurred but unrealized losses within the existing portfolio of loans. The ALLL is necessary to reserve for estimated loan and lease losses and risks inherent in the loan portfolio. The level of the ALLL reflects our ongoing evaluation of industry concentrations, specific credit risks, loan and lease loss experience, current loan portfolio quality, present economic, political and regulatory conditions and incurred losses inherent in the current loan portfolio.

The determination of the appropriate level of the ALLL inherently involves a degree of subjectivity and requires that we make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, the stagnation of certain economic indicators that we are more susceptible to, such as unemployment and real estate values, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside our control, may require an increase in the ALLL. In addition, bank regulatory agencies periodically review our ALLL and may require an increase in the ALLL or the recognition of further loan charge-offs, based on judgments that can differ from those of our own management. In addition, if charge-offs in future periods exceed the ALLL—that is, if the ALLL is inadequate—we will need additional loan and lease loss provisions to increase the ALLL. Should such additional provisions become necessary, they would result in a decrease in net income and capital and may have a material adverse effect on us.

***Operational risks are inherent in our businesses.***

Our operations depend on our ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations. Operational risk and losses can result from internal and external fraud; improper conduct or errors by employees or third parties; failure to document transactions properly or to obtain proper authorization; failure to comply with applicable regulatory requirements and conduct of business rules; equipment failures, including those caused by natural disasters or by electrical, telecommunications or other essential utility outages; business continuity and data security system failures, including those caused by computer viruses, cyber-attacks or unforeseen problems encountered while implementing major new computer systems or upgrades to existing systems; or the inadequacy or failure of systems and controls, including those of our suppliers or counterparties. Although we have implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures, identifying and rectifying weaknesses in existing procedures and training staff, it is not possible to be certain that such actions have been or will be effective in controlling each of the operational risks faced by us. Any weakness in these systems or controls, or any breaches or alleged breaches of such laws or regulations, could result in increased regulatory supervision, enforcement actions and other disciplinary action, and have an adverse impact on our business, applicable authorizations and licenses, reputation and results of operations.

***The financial services industry, including the banking sector, is undergoing rapid technological changes as a result of competition and changes in the legal and regulatory framework, and we may not be able to compete effectively as a result of these changes.***

The financial services industry, including the banking sector, is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. In addition, new, unexpected technological changes could have a disruptive effect on the way banks offer products and services. We believe our success depends, to a great extent, on our ability to address customer needs by using technology to offer products and services that provide convenience to customers and to create additional efficiencies in our operations. However, we may not be able to, among other things, keep up with the rapid pace of technological changes, effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. As a result, our ability to compete effectively to attract or retain new business may be impaired, and our business, financial condition or results of operations may be adversely affected.

In addition, changes in the legal and regulatory framework under which we operate require us to update our information systems to ensure compliance. Our need to review and evaluate the impact of ongoing rule proposals, final rules and implementation guidance from regulators further complicates the development and implementation of new information systems for our business. Also, recent regulatory guidance has focused on the need for financial

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institutions to perform increased due diligence and ongoing monitoring of third-party vendor relationships, thus increasing the scope of management involvement and decreasing the efficiency otherwise resulting from our relationships with third-party technology providers. Given the significant number of ongoing regulatory reform initiatives, it is possible that we incur higher than expected information technology costs in order to comply with current and impending regulations. See “ — Supervisory requirements and expectations on us as a financial holding company and a bank holding company and any regulator-imposed limits on our activities could adversely affect our ability to implement our strategic plan, expand our business, continue to improve our financial performance and make capital distributions to our stockholders.”

***We are subject to a variety of cybersecurity risks that, if realized, could adversely affect how we conduct our business.***

Information security risks for large financial institutions such as CFG have increased significantly in recent years in part because of the proliferation of new technologies, such as Internet and mobile banking to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, nation-states, activists and other external parties. Third parties with whom we or our customers do business also present operational and information security risks to us, including security breaches or failures of their own systems. The possibility of employee error, failure to follow security procedures, or malfeasance also presents these risks. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. In addition, to access our products and services, our customers may use personal computers, smartphones, tablets, and other mobile devices that are beyond our control environment. Although we believe that we have appropriate information security procedures and controls, our technologies, systems, networks and our customers' devices may be the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of the confidential, and/or proprietary information of CFG, our customers, our vendors, our counterparties, or our employees. We are under continuous threat of loss due to cyber-attacks, especially as we continue to expand customer capabilities to utilize the Internet and other remote channels to transact business. Two of the most significant cyber-attack risks that we face are e-fraud and loss of sensitive customer data. Loss from e-fraud occurs when cybercriminals extract funds directly from customers' or our accounts using fraudulent schemes that may include Internet-based funds transfers. We have been subject to a number of e-fraud incidents historically. We have also been subject to attempts to steal sensitive customer data, such as account numbers and social security numbers, through unauthorized access to our computer systems including computer hacking. Such attacks are less frequent but could present significant reputational, legal and regulatory costs to us if successful. We have implemented certain technology protections such as Customer Profiling and Set-Up Authentication to be in compliance with the FFIEC Authentication in Internet Banking Environment (“AIBE”) guidelines.

As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our layers of defense or to investigate and remediate any information security vulnerabilities. System enhancements and updates may also create risks associated with implementing new systems and integrating them with existing ones. Due to the complexity and interconnectedness of information technology systems, the process of enhancing our layers of defense can itself create a risk of systems disruptions and security issues. In addition, addressing certain information security vulnerabilities, such as hardware-based vulnerabilities, may affect the performance of our information technology systems. The ability of our hardware and software providers to deliver patches and updates to mitigate vulnerabilities in a timely manner can introduce additional risks, particularly when a vulnerability is being actively exploited by threat actors.

The techniques used by cyber criminals change frequently, may not be recognized until launched and can be initiated from a variety of sources, including terrorist organizations and hostile foreign governments. These actors may attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to data or our systems. In the event that a cyber-attack is successful, our business, financial condition or results of operations may be adversely affected. For a discussion of the guidance that federal banking regulators have released regarding cybersecurity and cyber risk management standards, see “Regulation and Supervision” in Part I, Item 1 — Business, included in this report.

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### ***We rely heavily on communications and information systems to conduct our business.***

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems, including due to hacking or other similar attempts to breach information technology security protocols, could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. Although we have established policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that these policies and procedures will be successful and that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could require us to devote substantial resources (including management time and attention) to recovery and response efforts, damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability. Although we maintain insurance coverage for information security events, we may incur losses as a result of such events that are not insured against or not fully covered by our insurance.

### ***We rely on third parties for the performance of a significant portion of our information technology.***

We rely on third parties for the performance of a significant portion of our information technology functions and the provision of information technology and business process services. For example, (i) unaffiliated third parties operate data communications networks on which certain components and services relating to our online banking system rely, (ii) third parties host or maintain many of our applications, including our Commercial Loan System, which is hosted and maintained by Automated Financial Systems, Inc., (iii) Fidelity National Information Services, Inc. maintains our core deposits system, and (iv) IBM Corporation provides us with a wide range of information technology support services, including end user, data center, network, mainframe, storage and database services. The success of our business depends in part on the continuing ability of these (and other) third parties to perform these functions and services in a timely and satisfactory manner, which performance could be disrupted or otherwise adversely affected due to failures or other information security events originating at the third parties or at the third parties' suppliers or vendors (so-called "fourth party risk"). We may not be able to effectively monitor or mitigate fourth-party risk, in particular as it relates to the use of common suppliers or vendors by the third parties that perform functions and services for us. If we experience a disruption in the provision of any functions or services performed by third parties, we may have difficulty in finding alternate providers on terms favorable to us and in reasonable timeframes. If these services are not performed in a satisfactory manner, we would not be able to serve our customers well. In either situation, our business could incur significant costs and be adversely affected.

### ***We are exposed to reputational risk and the risk of damage to our brands and the brands of our affiliates.***

Our success and results depend, in part, on our reputation and the strength of our brands. We are vulnerable to adverse market perception as we operate in an industry where integrity, customer trust and confidence are paramount. We are exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory or other investigations or actions, press speculation and negative publicity, among other factors, could damage our brands or reputation. Our brands and reputation could also be harmed if we sell products or services that do not perform as expected or customers' expectations for the product are not satisfied.

### ***We may be adversely affected by unpredictable catastrophic events or terrorist attacks and our business continuity and disaster recovery plans may not adequately protect us from serious disaster.***

The occurrence of catastrophic events such as hurricanes, tropical storms, tornadoes and other large-scale catastrophes and terrorist attacks could adversely affect our business, financial condition or results of operations if a catastrophe rendered both our production data center in Rhode Island and our recovery data center in North Carolina unusable. Although we enhanced our disaster recovery capabilities in 2016 through the completion of the new, out-of-region backup data center in North Carolina, there can be no assurance that our current disaster recovery plans and capabilities will adequately protect us from serious disaster.

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***An inability to realize the value of our deferred tax assets could adversely affect operating results.***

Our DTAs are subject to an evaluation of whether it is more likely than not that they will be realized for financial statement purposes. In making this determination, we consider all positive and negative evidence available, including the impact of recent operating results, as well as potential carry-back of tax to prior years' taxable income if carry-back is permitted under tax law, reversals of existing taxable temporary differences, tax planning strategies and projected earnings within the statutory tax loss carryover period. We have determined that the DTAs are more likely than not to be realized at December 31, 2017 (except for \$105 million related to state net operating losses and state tax credits for which a valuation allowance was established). If we were to conclude that a significant portion of the DTAs were not more likely than not to be realized, the required valuation allowance could adversely affect our financial condition and results of operations.

***We maintain a significant investment in projects that generate tax credits, which we may not be able to fully utilize, or, if utilized, may be subject to recapture or restructuring.***

At December 31, 2017, we maintained an investment of approximately \$1.3 billion in entities for which we receive allocations of tax credits, which we utilize to offset our taxable income. We recognized \$120 million in credits for the year ended December 31, 2017. As of December 31, 2017, all tax credits have been utilized to offset taxable income. Substantially all of these tax credits are related to development projects that are subject to ongoing compliance requirements over certain periods of time to fully realize their value. If these projects are not operated in full compliance with the required terms, the tax credits could be subject to recapture or restructuring. Further, we may not be able to utilize any future tax credits. If we are unable to utilize our tax credits or, if our tax credits are subject to recapture or restructuring, it could have a material adverse effect on our business, financial condition and results of operations.

### **Risks Related to Our Industry**

***Any deterioration in national economic conditions could have a material adverse effect on our business, financial condition and results of operations.***

Our business is affected by national economic conditions, as well as perceptions of those conditions and future economic prospects. Changes in such economic conditions are not predictable and cannot be controlled. Adverse economic conditions could require us to charge off a higher percentage of loans and increase the provision for credit losses, which would reduce our net income and otherwise have a material adverse effect on our business, financial condition and results of operations. For example, our business was significantly affected by the global economic and financial crisis that began in 2008. The falling home prices, increased rate of foreclosure and high levels of unemployment in the United States triggered significant write-downs by us and other financial institutions. These write-downs adversely impacted our financial results in material respects. Although the U.S. economy continues to recover, an interruption or reversal of this recovery would adversely affect the financial services industry and banking sector.

***We operate in an industry that is highly competitive, which could result in losing business or margin declines and have a material adverse effect on our business, financial condition and results of operations.***

We operate in a highly competitive industry. The industry could become even more competitive as a result of reform of the financial services industry resulting from the Dodd-Frank Act and other legislative, regulatory and technological changes, as well as continued consolidation. We face aggressive competition from other domestic and foreign lending institutions and from numerous other providers of financial services, including non-banking financial institutions that are not subject to the same regulatory restrictions as banks and bank holding companies, securities firms and insurance companies, and competitors that may have greater financial resources.

With respect to non-banking financial institutions, technology and other changes have lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks. For example, consumers can maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. Some of our non-bank competitors are not subject to the same extensive regulations we are and, therefore, may have greater flexibility in competing for business. As a result of these and other sources of

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competition, we could lose business to competitors or be forced to price products and services on less advantageous terms to retain or attract clients, either of which would adversely affect our profitability and business.

***The conditions of other financial institutions or of the financial services industry could adversely affect our operations and financial conditions.***

Financial services institutions are typically interconnected as a result of trading, investment, liquidity management, clearing, counterparty and other relationships. Within the financial services industry, the default by any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems and losses or defaults by other institutions, as the commercial and financial soundness of many financial institutions are closely related as a result of these credit, trading, clearing and other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by various institutions. This systemic risk may adversely affect financial intermediaries, such as clearing agencies, banks and exchanges with which we interact on a daily basis, or key funding providers such as the FHLBs, any of which could have a material adverse effect on our access to liquidity or otherwise have a material adverse effect on our business, financial condition and results of operations.

### **Risks Related to Regulations Governing Our Industry**

***As a financial holding company and a bank holding company, we are subject to comprehensive regulation that could have a material adverse effect on our business and results of operations.***

As a financial holding company and a bank holding company, we are subject to comprehensive regulation, supervision and examination by the FRB. In addition, CBNA is subject to comprehensive regulation, supervision and examination by the OCC and CBPA is subject to comprehensive regulation, supervision and examination by the FDIC and the PA Banking Department. Our regulators supervise us through regular examinations and other means that allow the regulators to gauge management's ability to identify, assess and control risk in all areas of operations in a safe and sound manner and to ensure compliance with laws and regulations. In the course of their supervision and examinations, our regulators may require improvements in various areas. If we are unable to implement and maintain any required actions in a timely and effective manner, we could become subject to informal (non-public) or formal (public) supervisory actions and public enforcement orders that could lead to significant restrictions on our existing business or on our ability to engage in any new business. Such forms of supervisory action could include, without limitation, written agreements, cease and desist orders, and consent orders and may, among other things, result in restrictions on our ability to pay dividends, requirements to increase capital, restrictions on our activities, the imposition of civil monetary penalties, and enforcement of such actions through injunctions or restraining orders. We could also be required to dispose of certain assets and liabilities within a prescribed period. The terms of any such supervisory or enforcement action could have a material adverse effect on our business, financial condition and results of operations.

We are a bank holding company that has elected to become a financial holding company pursuant to the Bank Holding Company Act. Financial holding companies are allowed to engage in certain financial activities in which a bank holding company is not otherwise permitted to engage. However, to maintain financial holding company status, a bank holding company (and all of its depository institution subsidiaries) must be "well capitalized" and "well managed." If a bank holding company ceases to meet these capital and management requirements, there are many penalties it would be faced with, including (i) the FRB may impose limitations or conditions on the conduct of its activities, and (ii) it may not undertake any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the FRB. If a company does not return to compliance within 180 days, which period may be extended, the FRB may require divestiture of that company's depository institutions. To the extent we do not meet the requirements to be a financial holding company in the future, there could be a material adverse effect on our business, financial condition and results of operations.

***We may be unable to disclose some restrictions or limitations on our operations imposed by our regulators.***

From time to time, bank regulatory agencies take supervisory actions that restrict or limit a financial institution's activities and lead it to raise capital or subject it to other requirements. Directives issued to enforce such actions may be confidential and thus, in some instances, we are not permitted to publicly disclose these actions. In addition, as part of our regular examination process, our and our banking subsidiaries' respective regulators may advise us or our banking subsidiaries to operate under various restrictions as a prudential matter. Any such actions

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or restrictions, if and in whatever manner imposed, could adversely affect our costs and revenues. Moreover, efforts to comply with any such nonpublic supervisory actions or restrictions may require material investments in additional resources and systems, as well as a significant commitment of managerial time and attention. As a result, such supervisory actions or restrictions, if and in whatever manner imposed, could have a material adverse effect on our business and results of operations; and, in certain instances, we may not be able to publicly disclose these matters.

***The regulatory environment in which we operate continues to be subject to significant and evolving regulatory requirements that could have a material adverse effect on our business and earnings.***

We are heavily regulated by multiple banking, consumer protection, securities and other regulatory authorities at the federal and state levels. This regulatory oversight is primarily established to protect depositors, the FDIC's Deposit Insurance Fund, consumers of financial products, and the financial system as a whole, not security holders. Changes to statutes, regulations, rules or policies, including the interpretation, implementation or enforcement of statutes, regulations, rules or policies, could affect us in substantial and unpredictable ways, including by, for example, subjecting us to additional costs, limiting the types of financial services and other products we may offer, limiting our ability to pursue acquisitions and increasing the ability of third parties, including non-banks, to offer competing financial services and products. In recent years, we, together with the rest of the financial services industry, have faced particularly intense scrutiny, with many new regulatory initiatives and vigorous oversight and enforcement on the part of numerous regulatory and governmental authorities. Legislatures and regulators have pursued a broad array of initiatives intended to promote the safety and soundness of financial institutions, financial market stability, the transparency and liquidity of financial markets, and consumer and investor protection. Certain regulators and law enforcement authorities have also recently required admissions of wrongdoing and, in some cases, criminal pleas as part of the resolutions of matters brought by them against financial institutions. Any such resolution of a matter involving us could lead to increased exposure to civil litigation, could adversely affect our reputation, could result in penalties or limitations on our ability to do business or engage in certain activities and could have other negative effects. In addition, a single event or issue may give rise to numerous and overlapping investigations and proceedings, including by multiple federal and state regulators and other governmental authorities.

We are also subject to laws and regulations relating to the privacy of the information of our customers, employees, counterparties and others, and any failure to comply with these laws and regulations could expose us to liability and/or reputational damage. As new privacy-related laws and regulations are implemented, the time and resources needed for us to comply with those laws and regulations, as well as our potential liability for non-compliance and our reporting obligations in the case of data breaches, may significantly increase.

Although the current administration and certain members of Congress have indicated an intent to pursue reforms to the regulatory framework applicable to financial institutions, the timing, scope and impact of any such changes remains uncertain, and it is possible that no such reforms will be implemented. For more information on the regulations to which we are subject and recent initiatives to reform financial institution regulation, see "Regulation and Supervision" in Part I, Item 1 — Business, included in this report.

***We are subject to capital adequacy and liquidity standards, and if we fail to meet these standards our financial condition and operations would be adversely affected.***

We are subject to several capital adequacy and liquidity standards. To the extent that we are unable to meet these standards, our ability to make distributions of capital will be limited and we may be subject to additional supervisory actions and limitations on our activities. See "Regulation and Supervision" in Part I, Item 1 — Business, and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital and Regulatory Requirements" and " — Liquidity" in Part II, Item 7, included in this report, for further discussion of the regulations to which we are subject.

***We could be required to act as a "source of strength" to our banking subsidiaries, which would have a material adverse effect on our business, financial condition and results of operations.***

FRB policy historically required bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. The Dodd-Frank Act codified this policy as a statutory requirement. This support may be required by the FRB at times when we might otherwise determine not to provide it or when doing so is not otherwise in the interests of CFG or our stockholders or creditors, and may include one or more of the following:

- We may be compelled to contribute capital to our subsidiary banks, including by engaging in a public offering to raise such capital. Furthermore, any extensions of credit from us to our banking subsidiaries that are

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included in the relevant bank's capital would be subordinate in right of payment to depositors and certain other indebtedness of such subsidiary banks.

- In the event of a bank holding company's bankruptcy, any commitment that the bank holding company had been required to make to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.
- In certain circumstances one of our banking subsidiaries could be assessed for losses incurred by the other. In addition, in the event of impairment of the capital stock of one of our banking subsidiaries, we, as our banking subsidiary's stockholder, could be required to pay such deficiency.

***We depend on our banking subsidiaries for most of our revenue, and restrictions on dividends and other distributions by our banking subsidiaries could affect our liquidity and ability to fulfill our obligations.***

As a bank holding company, we are a separate and distinct legal entity from our banking subsidiaries: CBNA and CPBA. We typically receive substantially all of our revenue from dividends from our banking subsidiaries. These dividends are the principal source of funds to pay dividends on our equity and interest and principal on our debt. Various federal and/or state laws and regulations, as well as regulatory expectations, limit the amount of dividends that our banking subsidiaries may pay to us. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event CBNA or CPBA is unable to pay dividends to us, we may not be able to service debt, pay obligations or pay dividends on our common stock. The inability to receive dividends from CBNA or CPBA could have a material adverse effect on our business, financial condition and results of operations. See "Supervision and Regulation" in Part I, Item 1 — Business, and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital and Regulatory Matters" in Part II, Item 7, included in this report.

***From time-to-time, we may become or are subject to regulatory actions that may have a material impact on our business.***

We may become or are involved, from time to time, in reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business. These regulatory actions involve, among other matters, accounting, compliance and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief that may require changes to our business or otherwise materially impact our business.

In regulatory actions, such as those referred to above, it is inherently difficult to determine whether any loss is probable or whether it is possible to reasonably estimate the amount of any loss. We cannot predict with certainty if, how or when such proceedings will be resolved or what the eventual fine, penalty or other relief, conditions or restrictions, if any, may be, particularly for actions that are in their early stages of investigation. We may be required to make significant restitution payments to our banking subsidiaries' customers arising from certain compliance issues and also may be required to pay civil money penalties in connection with certain of these issues. This uncertainty makes it difficult to estimate probable losses, which, in turn, can lead to substantial disparities between the reserves we may establish for such proceedings and the eventual settlements, fines, or penalties. Adverse regulatory actions could have a material adverse effect on our business, financial condition and results of operations.

***We are and may be subject to litigation that may have a material impact on our business.***

Our operations are diverse and complex and we operate in legal and regulatory environments that expose us to potentially significant litigation risk. In the normal course of business, we have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our activities as a financial services institution, including with respect to alleged unfair or deceptive business practices and mis-selling of certain products. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or in financial distress. Moreover, a number of recent judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed "lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or stockholders. This could increase the amount of

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private litigation to which we are subject. For more information regarding ongoing significant legal proceedings in which we may be involved, see Note 18 “Commitments and Contingencies” to our audited Consolidated Financial Statements included in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

### ***Compliance with anti-money laundering and anti-terrorism financing rules involve significant cost and effort.***

We are subject to rules and regulations regarding money laundering and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant financial burden on banks and other financial institutions and poses significant technical challenges. Although we believe our current policies and procedures are sufficient to comply with applicable rules and regulations, we cannot guarantee that our anti-money laundering and anti-terrorism financing policies and procedures completely prevent situations of money laundering or terrorism financing. Any such failure events may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on our business, financial condition or results of operations.

### ***We may become subject to more stringent regulatory requirements and activity restrictions, or have to restructure, if the FRB and FDIC jointly determine that our resolution plan is not credible.***

Current FRB and FDIC regulations require bank holding companies with more than \$50 billion in assets to submit resolution plans that, in the event of material financial distress or failure, establish the rapid, orderly and systemically safe liquidation of the company under the U.S. Bankruptcy Code. Separately, insured depository institutions with more than \$50 billion in assets must submit to the FDIC a resolution plan whereby they can be resolved in a manner that is orderly and that ensures that depositors will receive access to insured funds within certain required timeframes. If the FRB and the FDIC jointly determine that the resolution plan of a bank holding company is not credible, and the company fails to cure the deficiencies in a timely manner, then the FRB and the FDIC may jointly impose on the company, or on any of its subsidiaries, more stringent capital, leverage or liquidity requirements or restrictions on growth, activities or operations, or require the divestment of certain assets or operations. If the FRB and the FDIC jointly determine that our resolution plan is not credible or would not facilitate our orderly resolution under the U.S. Bankruptcy Code, we could become subject to more stringent regulatory requirements or business restrictions, or have to divest certain of our assets or businesses. Any such measures could have a material adverse effect on our business, financial condition or results of operations.

### **Risks Related to our Common Stock**

#### ***Our stock price may be volatile, and you could lose all or part of your investment as a result.***

You should consider an investment in our common stock to be risky, and you should invest in our common stock only if you can withstand a significant loss and wide fluctuation in the market value of your investment. The market price of our common stock could be subject to wide fluctuations in response to, among other things, the factors described in this “Risk Factors” section, and other factors, some of which are beyond our control. These factors include:

- quarterly variations in our results of operations or the quarterly financial results of companies perceived to be similar to us;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- our announcements or our competitors’ announcements regarding new products or services, enhancements, significant contracts, acquisitions or strategic investments;
- fluctuations in the market valuations of companies perceived by investors to be comparable to us;
- future sales of our common stock;
- additions or departures of members of our senior management or other key personnel;
- changes in industry conditions or perceptions; and
- changes in applicable laws, rules or regulations and other dynamics.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market price of equity securities of many companies. These fluctuations have often been unrelated or disproportionate to the operating performance of these companies.

# CITIZENS FINANCIAL GROUP, INC.

## RISK FACTORS

These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, loss of investor confidence, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock.

If any of the foregoing occurs, it could cause our stock price to fall and may expose us to securities class action litigation that, even if unsuccessful, could be costly to defend and a distraction to management.

***We may not repurchase shares or pay cash dividends on our common stock.***

Holders of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock. Also, as a bank holding company, our ability to repurchase shares and declare and pay dividends is dependent on certain federal regulatory considerations, including the rules of the FRB regarding capital adequacy and dividends. Additionally, we are required to submit annual capital plans to the FRB for review before we can take certain capital actions, including repurchasing shares, declaring and paying dividends, or repurchasing or redeeming capital securities. If our capital plan or any amendment to our capital plan is objected to for any reason, our ability to repurchase shares and declare and pay dividends on our capital stock may be limited. Further, if we are unable to satisfy the capital requirements applicable to us for any reason, we may be limited in our ability to repurchase shares and declare and pay dividends on our capital stock. See "Regulation and Supervision" in Part I, Item 1 — Business, included in this report, for further discussion of the regulations to which we are subject.

***"Anti-takeover" provisions and the regulations to which we are subject may make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to stockholders.***

We are a bank holding company incorporated in the state of Delaware. Anti-takeover provisions in Delaware law and our amended and restated certificate of incorporation and amended and restated bylaws, as well as regulatory approvals that would be required under federal law, could make it more difficult for a third party to take control of us and may prevent stockholders from receiving a premium for their shares of our common stock. These provisions could adversely affect the market price of our common stock and could reduce the amount that stockholders might get if we are sold.

We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our Board and by providing our Board with more time to assess any acquisition proposal. However, these provisions apply even if the offer may be determined to be beneficial by some stockholders and could delay or prevent an acquisition that our Board determines is not in our best interest and that of our stockholders.

Furthermore, banking laws impose notice, approval and ongoing regulatory requirements on any stockholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution. These laws include the Bank Holding Company Act and the Change in Bank Control Act.

# CITIZENS FINANCIAL GROUP, INC.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

Our headquarters is in Providence, Rhode Island. As of December 31, 2017, we leased approximately 5.2 million square feet of office and retail branch space. Our portfolio of leased space consisted of 3.5 million square feet of retail branch space which spanned eleven states and 1.5 million square feet of non-branch office space. As of December 31, 2017, we owned an additional approximately 660,000 square feet of office and branch space. We operated 78 branches in Rhode Island, 41 in Connecticut, 246 in Massachusetts, 16 in Vermont, 66 in New Hampshire, 133 in New York, 11 in New Jersey, 340 in Pennsylvania, 23 in Delaware, 103 in Ohio and 93 in Michigan. Of these branches, 1,116 were leased and the remainder were owned. These properties were used by both the Consumer Banking and Commercial Banking segments. Management believes the terms of the various leases were consistent with market standards and were derived through arm's-length bargaining. We also believe that our properties are in good operating condition and adequately serve our current business operations. We anticipate that suitable additional or alternative space, including those under lease options, will be available at commercially reasonable terms for future expansion.

During 2017, we continued construction on our new campus in Johnston, Rhode Island. This three-building complex, which will bring together more than 3,000 colleagues from various locations to one, will enhance greater collaboration and efficiency. Construction of the complex is expected to be completed in the Summer of 2018.

## ITEM 3. LEGAL PROCEEDINGS

Information required by this item is presented in Note 18 "Commitments and Contingencies" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, and is incorporated herein by reference.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

# CITIZENS FINANCIAL GROUP, INC.

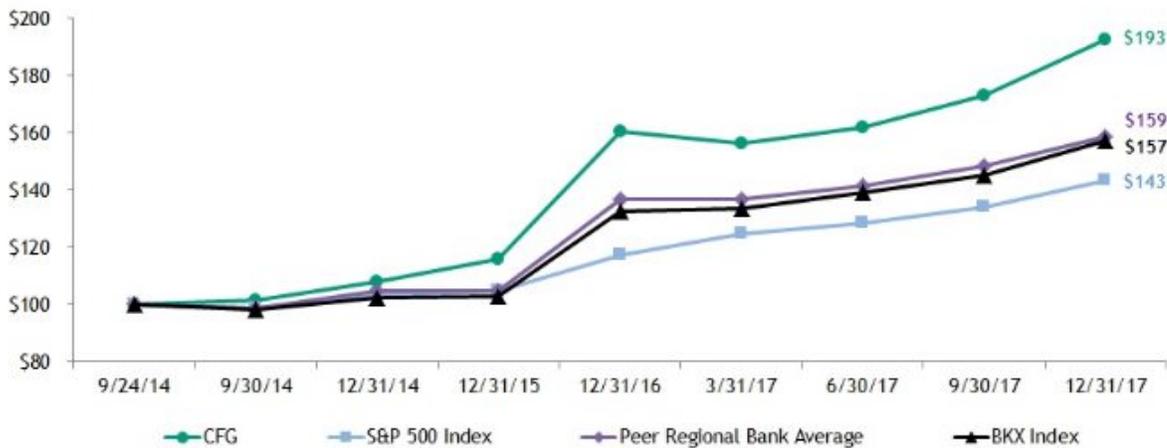
## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange under the symbol "CFG." As of February 8, 2018, our common stock was owned by three holders of record (including Cede & Co.) and approximately 126,840 beneficial shareholders whose shares were held in "street name" through a broker or bank. Information regarding the high and low sale prices of our common stock and cash dividends declared on such shares, as required by this item, is presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Quarterly Results of Operations" in Part II, Item 7, included in this report. Information regarding restrictions on dividends, as required by this Item, is presented in Note 24 "Regulatory Matters" and Note 26 "Parent Company Only Financials" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report. Information relating to compensation plans under which our equity securities are authorized for issuance is presented in "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in Part III, Item 12, included in this report.

The following graph compares the cumulative total stockholder returns for our performance since September 24, 2014 relative to the performance of the Standard & Poor's 500<sup>®</sup> index, a commonly referenced U.S. equity benchmark consisting of leading companies from diverse economic sectors; the KBW Nasdaq Bank Index ("BKX"), composed of 24 leading national money center and regional banks and thrifts; and a group of other banks that constitute our peer regional banks (BB&T, Comerica, Fifth Third, KeyCorp, M&T, PNC, Regions, SunTrust and U.S. Bancorp). The graph assumes a \$100 investment at the closing price on September 24, 2014 in each of CFG common stock, the S&P 500 index, the BKX and the peer market-capitalization weighted average and assumes all dividends were reinvested on the date paid. The points on the graph represent the date our shares first began to trade on the NYSE and fiscal quarter-end amounts based on the last trading day in each subsequent fiscal quarter.

This graph shall not be deemed "soliciting material" or to be filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Citizens Financial Group, Inc. under the Securities Act of 1933, as amended, or the Exchange Act.



	9/24/2014	9/30/2014	12/31/2014	12/31/2015	12/31/2016	3/31/2017	6/30/2017	9/30/2017	12/31/2017
CFG	\$100	\$101	\$108	\$116	\$161	\$156	\$162	\$173	\$193
S&P 500 Index	100	99	104	105	118	125	129	134	143
KBW BKX Index	100	98	103	103	133	134	139	145	157
Peer Regional Bank Average	\$100	\$99	\$105	\$105	\$137	\$137	\$141	\$149	\$159

# CITIZENS FINANCIAL GROUP, INC.

## *Issuer Purchase of Equity Securities*

Details of the repurchases of our common stock during the fourth quarter 2017 are included in the following table:

Period	Total Number of Shares Repurchased (1)	Weighted- Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Dollar Amount of Shares That May Yet Be Purchased As Part of Publicly Announced Plans or Programs (1)
October 1, 2017 - October 31, 2017	7,519,145	\$38.18	6,733,563	\$367,908,761
November 1, 2017 - November 30, 2017	324,313	\$38.18	290,430	\$356,819,996
December 1, 2017 - December 31, 2017	930,639	\$38.18	833,408	\$325,000,000

(1) On June 29, 2017, the Company announced that its 2017 Capital Plan, submitted as part of the CCAR process and not objected to by the FRB, included share repurchases of CFG common stock of up to \$850 million for the four-quarter period ending with the second quarter of 2018. This share repurchase plan, which was approved by the Company's Board of Directors at the time of the announcement, allowed for share repurchases that may be executed in the open market or in privately negotiated transactions, including under Rule 10b5-1 plans. All shares repurchased by the Company during the fourth quarter were executed pursuant to an accelerated share repurchase transaction, which was completed by December 31, 2017 and in compliance with applicable regulatory requirements. The timing and exact amount of future share repurchases will be subject to various factors, including the Company's capital position, financial performance and market conditions.

**CITIZENS FINANCIAL GROUP, INC.**  
**SELECTED CONSOLIDATED FINANCIAL DATA**

**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

The selected Consolidated Statement of Operations data for the years ended December 31, 2017, 2016 and 2015 and the selected Consolidated Balance Sheet data as of December 31, 2017 and 2016 are derived from our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report. We derived the selected Consolidated Statement of Operations data for the years ended December 31, 2014 and 2013 and the selected Consolidated Balance Sheet data as of December 31, 2015, 2014, and 2013 from our prior audited Consolidated Financial Statements, not included herein. Our historical results are not necessarily indicative of the results expected for any future period.

The following selected consolidated financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 and our audited Consolidated Financial Statements and the Notes thereto in Part II, Item 8 — Financial Statements and Supplementary Data, both included in this report.

(in millions, except per-share and ratio data)	For the Year Ended December 31,				
	2017	2016	2015	2014	2013 (1)
<b>OPERATING DATA:</b>					
Net interest income	\$4,173	\$3,758	\$3,402	\$3,301	\$3,058
Noninterest income	1,534	1,497	1,422	1,678	1,632
Total revenue	5,707	5,255	4,824	4,979	4,690
Provision for credit losses	321	369	302	319	479
Noninterest expense	3,474	3,352	3,259	3,392	7,679
Income (loss) before income tax expense (benefit)	1,912	1,534	1,263	1,268	(3,468)
Income tax expense (benefit) (2)	260	489	423	403	(42)
Net income (loss)	1,652	1,045	840	865	(3,426)
Net income (loss) available to common stockholders	1,638	1,031	833	865	(3,426)
Net income (loss) per average common share - basic (3)	3.26	1.97	1.55	1.55	(6.12)
Net income (loss) per average common share - diluted (3)	3.25	1.97	1.55	1.55	(6.12)
Dividends declared and paid per common share	0.64	0.46	0.40	1.43	2.12
<b>OTHER OPERATING DATA:</b>					
Return on average common equity (4)	8.35%	5.23%	4.30%	4.46%	(15.69%)
Return on average tangible common equity (4)	12.35	7.74	6.45	6.71	(25.91)
Return on average total assets (4)	1.10	0.73	0.62	0.68	(2.83)
Return on average total tangible assets (4)	1.15	0.76	0.65	0.71	(3.05)
Efficiency ratio (4)	60.87	63.80	67.56	68.12	163.73
Operating leverage (4) (5)	4.98	6.08	0.81	61.99	(126.30)
Net interest margin (4)	3.02	2.86	2.75	2.83	2.85
Effective income tax rate (2)	13.62	31.88	33.52	31.80	1.21

(1) Results in 2013 reflect a \$4.4 billion pre-tax or \$4.1 billion after-tax goodwill impairment, which was recorded within noninterest expense.

(2) On December 22, 2017 President Trump signed the 2017 Tax Legislation which reduced the corporate tax rate from 35% to 21%.

(3) Earnings per share information reflects a 165,582-for-1 forward stock split effective on August 22, 2014.

(4) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Introduction — Key Performance Metrics Used by Management and Non-GAAP Financial Measures” in Part II, Item 7, for definitions of our key performance metrics.

(5) “Operating leverage” represents the period-over-period percent change in total revenue, less the period-over-period percent change in noninterest expense. For the purpose of the 2013 calculation, 2012 total revenue was \$4.9 billion and noninterest expense was \$3.5 billion .

**CITIZENS FINANCIAL GROUP, INC.**  
**SELECTED CONSOLIDATED FINANCIAL DATA**

(in millions, except ratio data)	As of December 31,				
	2017	2016	2015	2014	2013 (1)
<b>BALANCE SHEET DATA:</b>					
Total assets	\$152,336	\$149,520	\$138,208	\$132,857	\$122,154
Loans held for sale, at fair value	497	583	325	256	176
Other loans held for sale	221	42	40	25	1,078
Loans and leases	110,617	107,669	99,042	93,410	85,859
Allowance for loan and lease losses	(1,236)	(1,236)	(1,216)	(1,195)	(1,221)
Total securities	25,733	25,610	24,075	24,704	21,274
Goodwill	6,887	6,876	6,876	6,876	6,876
Total liabilities	132,066	129,773	118,562	113,589	102,958
Total deposits <sup>(6)</sup>	115,089	109,804	102,539	95,707	86,903
Federal funds purchased and securities sold under agreements to repurchase	815	1,148	802	4,276	4,791
Other short-term borrowed funds	1,856	3,211	2,630	6,253	2,251
Long-term borrowed funds	11,765	12,790	9,886	4,642	1,405
Total stockholders' equity	20,270	19,747	19,646	19,268	19,196
<b>OTHER BALANCE SHEET DATA:</b>					
<b>Asset Quality Ratios:</b>					
Allowance for loan and lease losses as a % of total loans and leases	1.12%	1.15%	1.23%	1.28%	1.42%
Allowance for loan and lease losses as a % of nonperforming loans and leases	142	118	115	109	86
Nonperforming loans and leases as a % of total loans and leases	0.79	0.97	1.07	1.18	1.65
<b>Capital Ratios: <sup>(7)</sup></b>					
CET1 capital ratio <sup>(8)</sup>	11.2	11.2	11.7	12.4	13.5
Tier 1 capital ratio <sup>(9)</sup>	11.4	11.4	12.0	12.4	13.5
Total capital ratio <sup>(10)</sup>	13.9	14.0	15.3	15.8	16.1
Tier 1 leverage ratio <sup>(11)</sup>	10.0	9.9	10.5	10.6	11.6

(6) Excludes deposits held for sale of \$5.3 billion as of December 31, 2013.

(7) U.S. Basel III transitional rules for institutions applying the Standardized approach to calculating risk-weighted assets became effective January 1, 2015. The capital ratios and associated components as of December 31, 2017, 2016 and 2015 are prepared using the U.S. Basel III Standardized transitional approach. The December 31, 2017 capital ratios reflect the retrospective adoption of FASB ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — 2017 compared with 2016 — Income Tax Expense" for additional information.

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

(9) "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.

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

(11) "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**

**ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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# 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 \$152.3 billion in assets as of December 31, 2017. Our mission is to help our customers, colleagues and communities reach their potential. Headquartered in Providence, Rhode Island, we offer a broad range of retail and commercial banking products and services to individuals, small businesses, middle-market companies, large corporations and institutions. We help our customers reach their potential by listening to them and by understanding their needs in order to offer tailored advice, ideas and solutions. In Consumer Banking, we provide an integrated experience that includes mobile and online banking, a 24/7 customer contact center and the convenience of approximately 3,300 ATMs and 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](http://www.citizensbank.com).

The following MD&A is intended to assist readers in their analysis of the accompanying Consolidated Financial Statements and supplemental financial information. It should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data of this Form 10-K, as well as other information contained in this document.

### 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.

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

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

- Return on average common equity, which we define as net income available to common stockholders divided by average common equity;
- Return on average tangible common equity, which we define as net income available to common stockholders divided by average common equity excluding average goodwill (net of related deferred tax liability) and average other intangibles;
- Return on average total assets, which we define as net income divided by average total assets;
- Return on average total tangible assets, which we define as net income divided by average total assets excluding average goodwill (net of related deferred tax liability) and average other intangibles;
- Efficiency ratio, which we define as the ratio of our total noninterest expense to the sum of net interest income and total noninterest income. We measure our efficiency ratio to evaluate the efficiency of our operations as it helps us monitor how costs are changing compared to our income. A decrease in our efficiency ratio represents improvement;
- Operating leverage, which we define as the percent change in total revenue, less the percent change in noninterest expense;

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

- Net interest margin, which we calculate by dividing net interest income for the period by average total interest-earning assets, is a key measure that we use to evaluate our net interest income; and
- Common equity tier 1 capital ratio (U.S. Basel III Standardized fully phased-in basis), represents CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

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

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

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

Non-GAAP measures are denoted throughout “Management’s Discussion and Analysis of Financial Condition and Results of Operations” by the use of the term “Adjusted”, “Underlying” or “Adjusted/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**

**2017 compared with 2016 - Key Highlights**

2017 net income of \$1.7 billion increased 58% from \$1.0 billion in 2016, with earnings per diluted common share of \$3.25, up 65% from \$1.97 per diluted common share for 2016. 2017 results include \$340 million, or \$0.67 per diluted common share, after-tax benefit related to notable items compared with an after-tax benefit of \$19 million in 2016 as outlined in the tables below. 2017 ROTCE of 12.3% improved from 7.7% in 2016.\*

The following table presents selected GAAP and non-GAAP measures:\*

(in millions)	Year Ended December 31, 2017				
	Noninterest income	Noninterest expense	Credit-related costs	Income tax expense	Net Income
Reported results (GAAP)	\$1,534	\$3,474	\$321	\$260	\$1,652
Less: Notable items					
2017 Tax Legislation:					
Tax Legislation DTL adjustment	—	—	—	(331)	331
Colleague and community reinvestment	—	22	—	(9)	(13)
Gain on mortgage/home equity TDR Transaction	17	—	—	7	10
Home equity operational items	—	3	—	(1)	(2)
TOP IV efficiency initiatives	—	15	—	(6)	(9)
Settlement of certain tax matters	—	—	—	(23)	23
Lease impairment credit-related costs	(11)	15	(26)	—	—
<b>Total notable items</b>	<b>\$6</b>	<b>\$55</b>	<b>(\$26)</b>	<b>(\$363)</b>	<b>\$340</b>
<b>Underlying results (non-GAAP)</b>	<b>\$1,528</b>	<b>\$3,419</b>	<b>\$347</b>	<b>\$623</b>	<b>\$1,312</b>

\* After-tax notable items excluded from "Underlying" results reflect a fourth quarter 2017 \$10 million gain on a TDR portfolio sale offset by \$11 million of other notable items ("TDR Transaction II") and a \$331 million benefit relating to the December 2017 Tax Legislation, partially offset by \$13 million of other notable items. "Underlying" results, as applicable, also exclude a first quarter 2017 \$23 million benefit related to the settlement of certain state tax matters and reclassify second quarter 2017 results for the pre-tax impact of \$26 million of lease asset impairments to reflect their credit-related impact. Third quarter 2016 after-tax notable items excluded from our "Adjusted" results reflect a \$19 million gain on an TDR portfolio sale less other notable items ("TDR Transaction"). Where there is a reference to "Adjusted", "Underlying" and/or "Adjusted/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."

(in millions)	Year Ended December 31, 2016				
	Noninterest income	Noninterest expense	Credit-related costs	Income tax expense	Net Income
Reported results (GAAP)	\$1,497	\$3,352	\$369	\$489	\$1,045
Less: notable items					
Gain on mortgage/home equity TDR Transaction	72	—	—	27	45
Home equity operational items	—	8	—	(3)	(5)
Asset Finance repositioning	(5)	11	—	(6)	(10)
TOP III efficiency initiatives	—	17	—	(6)	(11)
<b>Total notable items</b>	<b>67</b>	<b>36</b>	<b>—</b>	<b>12</b>	<b>19</b>
<b>Adjusted results (non-GAAP)</b>	<b>\$1,430</b>	<b>\$3,316</b>	<b>\$369</b>	<b>\$477</b>	<b>\$1,026</b>

- 2017 results reflected a 59% increase in net income available to common stockholders, which included the impact of the 2017 Tax Legislation and other notable items as well as the 2016 TDR Transaction.
- On an Adjusted/Underlying basis,\* net income of \$1.3 billion increased 28%, earnings per diluted common share of \$2.58 was up 34%, and ROTCE of 10% improved by 219 basis points. Adjusted/Underlying results exclude a net \$340 million after-tax benefit related to notable items in 2017 compared with a net \$19 million after-tax benefit in 2016.

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

- Adjusted/Underlying net income available to common stockholders\* increased 28% led by revenue growth of 10% , with an 11% increase in net interest income and a 7% increase in noninterest income. Net interest income reflects a 6% increase in average loan growth and a 16 basis points improvement in net interest margin.
- Results for 2017 included a \$26 million pre-tax impact related to impairments on aircraft lease assets, which largely related to a non-core runoff portfolio, and reduced noninterest income by \$11 million and increased noninterest expense by \$15 million . The lease impairments, in addition to provision expense of \$321 million , resulted in total credit-related costs of \$347 million .\*
- Continued strong focus on top-line growth and expense management helped drive positive operating leverage of 5% and led to a 2.9% improvement in the efficiency ratio from 63.8% to 60.9% .
  - Before the impact of notable items, Adjusted/Underlying\* operating leverage was 7% and the efficiency ratio improved 4% from 63.9% to 60.0% .
- Fully diluted average common shares outstanding decreased by 20 million .

# 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.	Year Ended December 31,		
		2017	2016	2015
Total revenue (GAAP)	A	\$5,707	\$5,255	\$4,824
Noninterest expense (GAAP)	B	3,474	3,352	3,259
Net income (GAAP)	C	1,652	1,045	840
Net income available to common stockholders (GAAP)	D	1,638	1,031	833
<b>Return on average common equity:</b>				
Average common equity (GAAP)	E	\$19,618	\$19,698	\$19,354
Return on average common equity	D/E	8.35%	5.23%	4.30 %
<b>Return on average tangible common equity:</b>				
Average common equity (GAAP)	E	\$19,618	\$19,698	\$19,354
Less: Average goodwill (GAAP)		6,883	6,876	6,876
Less: Average other intangibles (GAAP)		2	2	4
Add: Average deferred tax liabilities related to goodwill (GAAP)		534	502	445
Average tangible common equity	F	\$13,267	\$13,322	\$12,919
Return on average tangible common equity	D/F	12.35%	7.74%	6.45%
<b>Return on average total assets:</b>				
Average total assets (GAAP)	G	\$149,953	\$143,183	\$135,070
Return on average total assets	C/G	1.10%	0.73%	0.62%
<b>Return on average total tangible assets:</b>				
Average total assets (GAAP)	G	\$149,953	\$143,183	\$135,070
Less: Average goodwill (GAAP)		6,883	6,876	6,876
Less: Average other intangibles (GAAP)		2	2	4
Add: Average deferred tax liabilities related to goodwill (GAAP)		534	502	445
Average tangible assets	H	\$143,602	\$136,807	\$128,635
Return on average total tangible assets	C/H	1.15%	0.76%	0.65%
<b>Efficiency ratio:</b>				
Efficiency ratio	B/A	60.87%	63.80%	67.56%
<b>Operating leverage:</b>				
Increase (decrease) in total revenue		8.61%	8.93%	(3.11%)
Increase (decrease) in noninterest expense		3.63	2.85	(3.92)
Operating leverage		4.98%	6.08%	0.81%
<b>Effective income tax rate:</b>				
Income before income tax expense	I	\$1,912	\$1,534	\$1,263
Income tax expense	J	260	489	423
Effective income tax rate	J/I	13.62%	31.88%	33.52%
<b>Net income per average common share - basic and diluted:</b>				
Average common shares outstanding - basic (GAAP)	K	502,157,440	522,093,545	535,599,731
Average common shares outstanding - diluted (GAAP)	L	503,685,091	523,930,718	538,220,898
Net income per average common share - basic (GAAP)	D/K	\$3.26	\$1.97	\$1.55
Net income per average common share - diluted (GAAP)	D/L	3.25	1.97	1.55
<b>Dividend payout ratio:</b>				
Cash dividends declared and paid per common share	M	\$0.64	\$0.46	\$0.40
Dividend payout ratio	M/(D/K)	20%	23%	26%



# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and for the Year Ended December 31,

(in millions, except ratio data)	Ref.	2017				2016				2015			
		Consumer Banking (1)	Commercial Banking (1)	Other	Consolidated	Consumer Banking (1)	Commercial Banking (1)	Other	Consolidated	Consumer Banking (1)	Commercial Banking (1)	Other	Consolidated
<b>Net income available to common stockholders:</b>													
Net income (loss) (GAAP)	N	\$452	\$774	\$426	\$1,652	\$345	\$631	\$69	\$1,045	\$262	\$579	(\$1)	\$840
Less: Preferred stock dividends		—	—	14	14	—	—	14	14	—	—	7	7
Net income (loss) available to common stockholders	O	\$452	\$774	\$412	\$1,638	\$345	\$631	\$55	\$1,031	\$262	\$579	(\$8)	\$833
<b>Efficiency ratio:</b>													
Total revenue (GAAP)	P	\$3,556	\$1,949	\$202	\$5,707	\$3,326	\$1,754	\$175	\$5,255	\$3,108	\$1,577	\$139	\$4,824
Noninterest expense (GAAP)	Q	2,593	772	109	3,474	2,547	741	64	3,352	2,456	709	94	3,259
Efficiency ratio	Q/P	72.93%	39.62%	NM	60.87%	76.57%	42.26%	NM	63.80%	79.02%	44.94%	NM	67.56%
<b>Return on average total tangible assets:</b>													
Average total assets (GAAP)		\$59,714	\$49,747	\$40,492	\$149,953	\$56,388	\$47,159	\$39,636	\$143,183	\$52,848	\$42,800	\$39,422	\$135,070
Less: Average goodwill (GAAP)		—	—	6,883	6,883	—	—	6,876	6,876	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	2	2	—	—	2	2	—	—	4	4
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	534	534	—	—	502	502	—	—	445	445
Average total tangible assets	R	\$59,714	\$49,747	\$34,141	\$143,602	\$56,388	\$47,159	\$33,260	\$136,807	\$52,848	\$42,800	\$32,987	\$128,635
Return on average total tangible assets	N/R	0.76%	1.56%	NM	1.15%	0.61%	1.34%	NM	0.76%	0.50%	1.35%	NM	0.65%
<b>Return on average tangible common equity:</b>													
Average common equity (GAAP) (1)		\$5,538	\$5,647	\$8,433	\$19,618	\$5,166	\$5,071	\$9,461	\$19,698	\$4,739	\$4,666	\$9,949	\$19,354
Less: Average goodwill (GAAP)		—	—	6,883	6,883	—	—	6,876	6,876	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	2	2	—	—	2	2	—	—	4	4
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	534	534	—	—	502	502	—	—	445	445
Average tangible common equity (1)	S	\$5,538	\$5,647	\$2,082	\$13,267	\$5,166	\$5,071	\$3,085	\$13,322	\$4,739	\$4,666	\$3,514	\$12,919
Return on average tangible common equity (1)	O/S	8.17%	13.70%	NM	12.35%	6.68%	12.44%	NM	7.74%	5.53%	12.41%	NM	6.45%

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

# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

(in millions, except share, per-share and ratio data)	Ref.	Year Ended December 31,		
		2017	2016	2015
<b>Noninterest income, Adjusted/Underlying:</b>				
Noninterest income (GAAP)		\$1,534	\$1,497	\$1,422
Less: Notable items				
Gain on mortgage/home equity TDR Transaction		17	72	—
Lease impairment credit-related costs		(11)	—	—
Asset Finance repositioning		—	(5)	—
<b>Noninterest income, Adjusted/Underlying (non-GAAP)</b>		<b>\$1,528</b>	<b>\$1,430</b>	<b>\$1,422</b>
<b>Total revenue, Adjusted/Underlying:</b>				
Total revenue (GAAP)	A	\$5,707	\$5,255	\$4,824
Less: Notable items				
Gain on mortgage/home equity TDR Transaction		17	72	—
Lease impairment credit-related costs		(11)	—	—
Asset Finance repositioning		—	(5)	—
<b>Total revenue, Adjusted/Underlying (non-GAAP)</b>	T	<b>\$5,701</b>	<b>\$5,188</b>	<b>\$4,824</b>
<b>Noninterest expense, Adjusted/Underlying:</b>				
Noninterest expense (GAAP)	B	\$3,474	\$3,352	\$3,259
Less: Restructuring charges				
		—	—	26
Less: Special items				
Regulatory charges		—	—	2
Separation/IPO related		—	—	22
Less: Notable items				
2017 Tax Legislation:				
Colleague and community reinvestment		22	—	—
Home equity operational items		3	8	—
TOP efficiency initiatives		15	17	—
Lease impairment credit-related costs		15	—	—
Asset Finance repositioning		—	11	—
<b>Noninterest expense, Adjusted/Underlying (non-GAAP)</b>	U	<b>\$3,419</b>	<b>\$3,316</b>	<b>\$3,209</b>
<b>Pre-provision profit, Adjusted/Underlying:</b>				
Total revenue, Adjusted/Underlying (non-GAAP)	T	\$5,701	\$5,188	\$4,824
Noninterest expense, Adjusted/Underlying (non-GAAP)	U	3,419	3,316	3,209
<b>Pre-provision profit, Adjusted/Underlying (non-GAAP)</b>		<b>\$2,282</b>	<b>\$1,872</b>	<b>\$1,615</b>
<b>Total credit-related costs, Adjusted/Underlying:</b>				
Provision for credit losses (GAAP)		\$321	\$369	\$302
Add: Lease impairment credit-related costs		26	—	—
<b>Total credit-related costs, Adjusted/Underlying (non-GAAP)</b>		<b>\$347</b>	<b>\$369</b>	<b>\$302</b>

# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(in millions, except share, per-share and ratio data)	Ref.	Year Ended December 31,		
		2017	2016	2015
<b>Income before income tax expense, Adjusted/Underlying:</b>				
Income before income tax expense (GAAP)	I	\$1,912	\$1,534	\$1,263
Less: Restructuring charges		—	—	(26)
Less: Special items				
Regulatory charges		—	—	(2)
Separation/IPO related		—	—	(22)
Less: Notable items				
2017 Tax Legislation:				
Colleague and community reinvestment		(22)	—	—
Gain on mortgage/home equity TDR Transaction		17	72	—
Home equity operational items		(3)	(8)	—
TOP efficiency initiatives		(15)	(17)	—
Asset Finance repositioning		—	(16)	—
Income before income tax expense, Adjusted/Underlying (non-GAAP)	V	\$1,935	\$1,503	\$1,313
<b>Income tax expense and effective income tax rate, Adjusted/Underlying:</b>				
Income tax expense (GAAP)	J	\$260	\$489	\$423
Less: Restructuring charges		—	—	(10)
Less: Special items				
Regulatory charges		—	—	(1)
Separation/IPO related		—	—	(8)
Less: Notable items				
2017 Tax Legislation:				
Tax Legislation deferred tax liability adjustment		(331)	—	—
Colleague and community reinvestment		(9)	—	—
Gain on mortgage/home equity TDR Transaction		7	27	—
Home equity operational items		(1)	(3)	—
TOP efficiency initiatives		(6)	(6)	—
Settlement of certain tax matters		(23)	—	—
Asset Finance repositioning		—	(6)	—
Income tax expense, Adjusted/Underlying (non-GAAP)	W	\$623	\$477	\$442
Effective income tax rate (GAAP)	J/I	13.62%	31.88%	33.52%
Effective income tax rate, Adjusted/Underlying (non-GAAP)	W/V	32.20	31.74	33.67
<b>Net income, Adjusted/Underlying:</b>				
Net income (GAAP)	C	\$1,652	\$1,045	\$840
Add: Restructuring charges, net of tax expense		—	—	16
Add: Special items, net of tax expense				
Regulatory charges		—	—	1
Separation/IPO related		—	—	14
Add: Notable items, net of tax expense				
2017 Tax Legislation:				
Tax Legislation deferred tax liability adjustment		(331)	—	—
Colleague and community reinvestment		13	—	—
Gain on mortgage/home equity TDR Transaction		(10)	(45)	—
Home equity operational items		2	5	—
TOP efficiency initiatives		9	11	—
Settlement of certain tax matters		(23)	—	—
Asset Finance repositioning		—	10	—
Net income, Adjusted/Underlying (non-GAAP)	X	\$1,312	\$1,026	\$871



# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(in millions, except share, per-share and ratio data)	Ref.	Year Ended December 31,		
		2017	2016	2015
<b>Net income available to common stockholders, Adjusted/Underlying:</b>				
Net income available to common stockholders (GAAP)	D	\$1,638	\$1,031	\$833
Add: Restructuring charges, net of tax expense		—	—	16
Add: Special items, net of tax expense				
Regulatory charges		—	—	1
Separation/IPO related		—	—	14
Add: Notable items, net of tax expense				
2017 Tax Legislation:				
Tax Legislation deferred tax liability adjustment		(331)	—	—
Colleague and community reinvestment		13	—	—
Gain on mortgage/home equity TDR Transaction		(10)	(45)	—
Home equity operational items		2	5	—
TOP efficiency initiatives		9	11	—
Settlement of certain tax matters		(23)	—	—
Asset Finance repositioning		—	10	—
Net income available to common stockholders, Adjusted/Underlying (non-GAAP)	Y	\$1,298	\$1,012	\$864
<b>Return on average common equity and return on average common equity, Adjusted/Underlying:</b>				
Average common equity (GAAP)	E	\$19,618	\$19,698	\$19,354
Return on average common equity	D/E	8.35%	5.23%	4.30%
Return on average common equity, Adjusted/Underlying (non-GAAP)	Y/E	6.62	5.14	4.46
<b>Return on average tangible common equity and return on average common equity, Adjusted/Underlying:</b>				
Average common equity (GAAP)	E	\$19,618	\$19,698	\$19,354
Less: Average goodwill (GAAP)		6,883	6,876	6,876
Less: Average other intangibles (GAAP)		2	2	4
Add: Average deferred tax liabilities related to goodwill (GAAP)		534	502	445
Average tangible common equity	F	\$13,267	\$13,322	\$12,919
Return on average tangible common equity	D/F	12.35%	7.74%	6.45%
Return on average tangible common equity, Adjusted/Underlying (non-GAAP)	Y/F	9.79	7.60	6.69
<b>Return on average total assets and return on average total assets, Adjusted/Underlying:</b>				
Average total assets (GAAP)	G	\$149,953	\$143,183	\$135,070
Return on average total assets	C/G	1.10%	0.73%	0.62%
Return on average total assets, Adjusted/Underlying (non-GAAP)	X/G	0.88	0.72	0.64
<b>Return on average total tangible assets and return on average total tangible assets, Adjusted/Underlying:</b>				
Average total assets (GAAP)	G	\$149,953	\$143,183	\$135,070
Less: Average goodwill (GAAP)		6,883	6,876	6,876
Less: Average other intangibles (GAAP)		2	2	4
Add: Average deferred tax liabilities related to goodwill (GAAP)		534	502	445
Average tangible assets	H	\$143,602	\$136,807	\$128,635
Return on average total tangible assets	C/H	1.15%	0.76%	0.65%
Return on average total tangible assets, Adjusted/Underlying (non-GAAP)	X/H	0.91	0.75	0.68
<b>Efficiency ratio and efficiency ratio, Adjusted/Underlying:</b>				
Efficiency ratio	B/A	60.87%	63.80%	67.56%
Efficiency ratio, Adjusted/Underlying (non-GAAP)	U/T	59.96	63.92	66.52
<b>Operating leverage and operating leverage, Adjusted/Underlying:</b>				
Increase (decrease) in total revenue		8.61%	8.93%	(3.11%)
Increase (decrease) in noninterest expense		3.63	2.85	(3.92)
Operating Leverage		4.98%	6.08%	0.81%

Increase in total revenue, Adjusted/Underlying (non-GAAP)	9.90%	7.55%	2.84%
Increase (decrease) in noninterest expense, Adjusted/Underlying (non-GAAP)	3.10	3.33	(0.43)
Operating Leverage, Adjusted/Underlying (non-GAAP)	6.80%	4.22%	3.27%

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

(in millions, except share, per-share and ratio data)	Ref.	Year Ended December 31,		
		2017	2016	2015
<b>Net income per average common share - basic and diluted, Adjusted/Underlying:</b>				
Average common shares outstanding - basic (GAAP)	K	502,157,440	522,093,545	535,599,731
Average common shares outstanding - diluted (GAAP)	L	503,685,091	523,930,718	538,220,898
Net income per average common share - basic (GAAP)	D/K	\$3.26	\$1.97	\$1.55
Net income per average common share - diluted (GAAP)	D/L	3.25	1.97	1.55
Net income per average common share-basic, Adjusted/Underlying (non-GAAP)	Y/K	2.59	1.94	1.61
Net income per average common share-diluted, Adjusted/Underlying (non-GAAP)	Y/L	2.58	1.93	1.61
<b>Dividend payout ratio and dividend payout ratio, Adjusted/Underlying:</b>				
Cash dividends declared and paid per common share	M	\$0.64	\$0.46	\$0.40
Dividend payout ratio	M/(D/K)	20%	23%	26%
Dividend payout ratio, Adjusted/Underlying (non-GAAP)	M/(Y/K)	25	24	25
<b>Impact of Adjusted/Underlying items on net income per average common share - basic:</b>				
Restructuring charges		\$—	\$—	(\$0.03)
Special items: Separation/IPO related		—	—	(0.03)
Notable items:				
2017 Tax Legislation:				
Tax Legislation deferred tax liability adjustment		0.66	—	—
Colleague and community reinvestment		(0.03)	—	—
Gain on mortgage/home equity TDR Transaction		0.02	0.08	—
Home equity operational items		—	(0.01)	—
TOP efficiency initiatives		(0.02)	(0.02)	—
Settlement of certain tax matters		0.04	—	—
Asset Finance repositioning		—	(0.02)	—
<b>Impact of Adjusted/Underlying items on net income per average common share - basic</b>		<b>\$0.67</b>	<b>\$0.03</b>	<b>(\$0.06)</b>
<b>Impact of Adjusted/Underlying items on net income per average common share - diluted:</b>				
Restructuring charges		\$—	\$—	(\$0.03)
Special items: Separation/IPO related		—	—	(0.03)
Notable items:				
2017 Tax Legislation:				
Tax Legislation deferred tax liability adjustment		0.66	—	—
Colleague and community reinvestment		(0.03)	—	—
Gain on mortgage/home equity TDR Transaction		0.02	0.09	—
Home equity operational items		—	(0.01)	—
TOP efficiency initiatives		(0.02)	(0.02)	—
Settlement of certain tax matters		0.04	—	—
Asset Finance repositioning		—	(0.02)	—
<b>Impact of Adjusted/Underlying items on net income per average common share - diluted</b>		<b>\$0.67</b>	<b>\$0.04</b>	<b>(\$0.06)</b>

# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS — 2017 compared with 2016

#### Year Ended 2017 vs. Year Ended 2016

- Net income of \$1.7 billion increased \$607 million compared to \$1.0 billion in 2016. Net income available to common stockholders of \$1.6 billion increased \$607 million, or 59% from 2016 reflecting 9% revenue growth, partially offset by 4% growth in noninterest expense.
  - On an Adjusted/Underlying basis,\* excluding the \$340 million after tax benefit related to notable items in 2017 and the \$19 million after-tax benefit related to the 2016 TDR Transaction, net income increased 28% from \$1.0 billion in 2016 driven by an 11% increase in net interest income and 7% growth in noninterest income drove a 10% increase in revenue.
- Net income per average common share was \$3.25, diluted, compared to \$1.97 in 2016:
  - On an Adjusted/Underlying basis,\* net income per average common share increased 34% to \$2.58, diluted, compared to \$1.93 in 2016.
- Total revenue of \$5.7 billion increased \$452 million, or 9%. Adjusted/Underlying revenue growth\* of \$513 million, or 10%, was driven by an 11% increase in net interest income and a 7% increase in noninterest income.
  - Net interest income results reflect 6% average loan growth and a 16 basis point improvement in net interest margin.
  - Noninterest expense of \$3.5 billion increased 4%, driven by the impact of notable items. On an Adjusted/Underlying basis,\* noninterest expense increased 3%.
  - Noninterest income of \$1.5 billion increased \$37 million, or 2%, from 2016, largely driven by strength in capital markets fees, card fees, trust and investment services fees, letter of credit and loan fees and foreign exchange and interest rate products.
    - On an Adjusted/Underlying basis,\* excluding the \$6 million of notable items in 2017 and the \$67 million net impact related to notable items in 2016, noninterest income increased \$98 million, or 7%, from 2016.
- Noninterest expense of \$3.5 billion, which included the \$55 million impact of 2017 notable items, increased \$122 million, or 4%, compared to \$3.4 billion in 2016. Results also reflected higher salaries and employee benefits, outside services, occupancy expense, amortization of software and other operating expense.
  - On an Adjusted/Underlying basis,\* excluding the \$55 million impact related to notable items in 2017 and the \$36 million impact related to notable items in 2016, noninterest expense increased \$103 million, or 3%, from 2016.
- Provision for credit losses of \$321 million decreased \$48 million, or 13%, from \$369 million in 2016.
  - On an Adjusted/Underlying basis,\* total credit-related costs of \$347 million, including the \$26 million impact of lease impairments, were down \$22 million, or 6% from 2016.
- Net charge-offs of \$305 million decreased \$30 million, or 9%, from \$335 million in 2016. The ALLL of \$1.2 billion remained flat compared to December 31, 2016. ALLL to total loans and leases was 1.12% as of December 31, 2017, compared with 1.15% as of December 31, 2016. ALLL to nonperforming loans and leases ratio was 142% as of December 31, 2017, compared with 118% as of December 31, 2016.
- Return on average common equity was 8.3% compared to 5.2% for 2016.
  - On an Adjusted/Underlying basis,\* return on average common equity of 6.6% increased 148 basis points from 5.1% for 2016.
- Return on average tangible common equity was 12.3% compared to 7.7% for 2016 due to higher net income, the 2017 Tax Legislation and share repurchases.\*
  - On an Adjusted/Underlying basis,\* return on average tangible common equity of 9.8% increased 219 basis points from 7.6% for 2016.
- Average loans and leases of \$109.3 billion increased \$5.9 billion, or 6%, from \$103.4 billion in 2016, driven by a \$3.0 billion increase in commercial loans and leases and a \$2.9 billion increase in retail loans.

- Average deposits of \$111.9 billion increased \$6.4 billion, or 6%, from \$105.4 billion in 2016, driven by strength in checking with interest, term, money market and savings.
- For 2017, the effective income tax rate decreased from 31.9% to 13.6%, driven by the \$331 million after-tax benefit for the revaluation of our net deferred tax liability tied to the December 2017 Tax Legislation.
  - On an Adjusted/Underlying basis,\* the effective income tax rate increased from 31.7% to 32.2%

### Net Income

Net income totaled \$1.7 billion, reflecting an increase of \$607 million, or 58%, from \$1.0 billion in 2016. The following table presents the significant components of our net income:

(dollars in millions)	Year Ended December 31,		Change	Percent
	2017	2016		
<b>Operating Data:</b>				
Net interest income	\$4,173	\$3,758	\$415	11 %
Noninterest income	1,534	1,497	37	2
Total revenue	5,707	5,255	452	9
Provision for credit losses	321	369	(48)	(13)
Noninterest expense	3,474	3,352	122	4
Income before income tax expense	1,912	1,534	378	25
Income tax expense	260	489	(229)	(47)
Net income	\$1,652	\$1,045	\$607	58 %
Net income available to common stockholders	\$1,638	\$1,031	\$607	59 %
Return on average tangible common equity	12.35%	7.74%	461 bps	

### Return on Equity and Assets

The following table presents our return on average total assets, return on average common equity, dividend payout ratio and average equity to average assets ratio:

	December 31,	
	2017	2016
Return on average total assets	1.10%	0.73%
Return on average common equity	8.35	5.23
Dividend payout ratio	19.62	23.30
Average equity to average assets ratio	13.25	13.93

# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Net Interest Income

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

(dollars in millions)	Year Ended December 31,						Change	
	2017			2016			Average Balances	Yields/ Rates
	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates		
<b>Assets</b>								
Interest-bearing cash and due from banks and deposits in banks	\$1,807	\$18	0.96%	\$1,931	\$8	0.41%	(\$124)	55 bps
Taxable investment securities	25,696	625	2.43	24,643	584	2.37	1,053	6
Non-taxable investment securities	7	—	2.60	8	—	2.60	(1)	—
Total investment securities	25,703	625	2.43	24,651	584	2.37	1,052	6
Commercial	37,631	1,334	3.50	35,652	1,136	3.13	1,979	37
Commercial real estate	11,178	402	3.55	9,741	278	2.81	1,437	74
Leases	3,437	86	2.50	3,841	93	2.41	(404)	9
Total commercial loans and leases	52,246	1,822	3.44	49,234	1,507	3.01	3,012	43
Residential mortgages	16,017	571	3.57	14,005	504	3.60	2,012	(3)
Home equity loans	1,610	91	5.68	2,180	123	5.64	(570)	4
Home equity lines of credit	13,706	514	3.75	14,402	457	3.18	(696)	57
Home equity loans serviced by others	642	46	7.09	867	62	7.11	(225)	(2)
Home equity lines of credit serviced by others	181	7	4.07	281	7	2.41	(100)	166
Automobile	13,491	442	3.27	13,953	411	2.94	(462)	33
Education <sup>(1)</sup>	7,557	403	5.33	5,558	282	5.08	1,999	25
Credit cards	1,725	185	10.75	1,620	181	11.22	105	(47)
Other retail	2,117	168	7.94	1,288	119	9.23	829	(129)
Total retail loans	57,046	2,427	4.25	54,154	2,146	3.96	2,892	29
Total loans and leases <sup>(2)</sup>	109,292	4,249	3.87	103,388	3,653	3.51	5,904	36
Loans held for sale, at fair value	490	18	3.58	425	15	3.40	65	18
Other loans held for sale	190	10	5.36	141	6	4.55	49	81
Interest-earning assets	137,482	4,920	3.56	130,536	4,266	3.25	6,946	31
Allowance for loan and lease losses	(1,225)			(1,227)			2	
Goodwill	6,883			6,876			7	
Other noninterest-earning assets	6,813			6,998			(185)	
Total noninterest-earning assets	12,471			12,647			(176)	
Total assets	\$149,953			\$143,183			\$6,770	
<b>Liabilities and Stockholders' Equity</b>								
Checking with interest	\$21,458	\$79	0.37%	\$19,320	\$34	0.18%	\$2,138	19 bps
Money market accounts	37,450	198	0.53	37,106	133	0.36	344	17
Regular savings	9,384	4	0.04	8,691	4	0.04	693	—
Term deposits	15,448	160	1.04	12,696	99	0.78	2,752	26
Total interest-bearing deposits	83,740	441	0.53	77,813	270	0.35	5,927	18
Federal funds purchased and securities sold under agreements to repurchase <sup>(3)</sup>	776	3	0.38	947	2	0.22	(171)	16
Other short-term borrowed funds	2,321	31	1.32	3,207	40	1.22	(886)	10
Long-term borrowed funds	12,479	272	2.17	10,472	196	1.86	2,007	31
Total borrowed funds	15,576	306	1.96	14,626	238	1.62	950	34
Total interest-bearing liabilities	99,316	747	0.75	92,439	508	0.55	6,877	20
Demand deposits	28,134			27,634			500	
Other liabilities	2,637			3,165			(528)	
Total liabilities	130,087			123,238			6,849	
Stockholders' equity	19,866			19,945			(79)	

Total liabilities and stockholders' equity	\$149,953			\$143,183			\$6,770	
Interest rate spread			2.81%			2.70%		11
Net interest income	\$4,173			\$3,758				
Net interest margin			3.02%			2.86%		16 bps
Memo: Total deposits (interest-bearing and demand)	\$111,874	\$441	0.39%	\$105,447	\$270	0.26%	\$6,427	13 bps

(1) During first quarter 2017, student loans were renamed "education" loans. For further information see Note 1 "Basis of Presentation" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

(2) Interest income and rates on loans include loan fees. Additionally, \$970 million and \$1.1 billion of average nonaccrual loans were included in the average loan balances used to determine the average yield on loans for December 2017 and 2016.

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

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Net interest income of \$4.2 billion in the year ended 2017 increased \$415 million, or 11%, compared to \$3.8 billion in the year ended 2016, reflecting 6% average loan growth and a 16 basis point improvement in net interest margin.

Average interest-earning assets of \$137.5 billion increased \$ 6.9 billion, or 5%, from the year ended 2016, driven by a \$3.0 billion increase in average commercial loans and leases, a \$2.9 billion increase in average retail loans, and a \$928 million increase in average investments and interest-bearing cash and due from banks and deposits in banks. Commercial loan growth was driven by strength in commercial and commercial real estate. Retail loan growth was driven by strength in residential mortgages, education, and other retail balances.

Average deposits of \$111.9 billion increased \$6.4 billion from the year ended 2016, reflecting growth in all categories with particular strength in checking with interest and term deposits. Total interest-bearing deposit costs of \$441 million increased \$171 million, or 63%, from \$270 million in 2016, primarily due to the impact of rising rates and a slight shift in mix toward commercial deposits.

Average total borrowed funds of \$15.6 billion increased \$1.0 billion from the year ended 2016, reflecting an increase in average long-term borrowed funds driven by issuances of senior notes. Total borrowed funds costs of \$306 million increased \$68 million from the year ended 2016. The total borrowed funds yield of 1.96% in the year ended 2017 increased 34 basis points from 1.62% in the year ended 2016 due to an increase in long-term rates and a mix shift to long-term senior debt.

Net interest margin of 3.02% increased 16 basis points compared to 2.86% in the year ended 2016, driven by improved loan yields reflecting both higher interest rates and balance sheet optimization initiatives. These results were partially offset by the impact of investment portfolio growth and higher deposit cost and funding costs. Average interest-earning asset yields of 3.56% increased 31 basis points from 3.25% in the year ended 2016, while average interest-bearing liability costs of 0.75% increased 20 basis points from 0.55% in the year ended 2016.

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The following table presents the change in interest income and interest expense due to changes in both average volume and average rate. Average volume and rate changes have been allocated between the average rate and average volume variances on a consistent basis using the respective percentage changes in average balances and average rates.

(in millions)	Year Ended December 31,		
	2017 Versus 2016		
	Average Volume	Average Rate	Net Change
<b>Interest Income</b>			
Interest-bearing cash and due from banks and deposits in banks	\$—	\$10	\$10
Taxable investment securities	25	16	41
Non-taxable investment securities	—	—	—
<b>Total investment securities</b>	<b>25</b>	<b>16</b>	<b>41</b>
Commercial	62	136	198
Commercial real estate	41	83	124
Leases	(10)	3	(7)
<b>Total commercial loans and leases</b>	<b>93</b>	<b>222</b>	<b>315</b>
Residential mortgages	72	(5)	67
Home equity loans	(33)	1	(32)
Home equity lines of credit	(22)	79	57
Home equity loans serviced by others	(16)	—	(16)
Home equity lines of credit serviced by others	(3)	3	—
Automobile	(14)	45	31
Education	102	19	121
Credit cards	12	(8)	4
Other retail	76	(27)	49
<b>Total retail loans</b>	<b>174</b>	<b>107</b>	<b>281</b>
<b>Total loans and leases</b>	<b>267</b>	<b>329</b>	<b>596</b>
Loans held for sale, at fair value	2	1	3
Other loans held for sale	2	2	4
<b>Total interest income</b>	<b>\$296</b>	<b>\$358</b>	<b>\$654</b>
<b>Interest Expense</b>			
Checking with interest	\$4	\$41	\$45
Money market accounts	1	64	65
Regular savings	—	—	—
Term deposits	21	40	61
<b>Total interest-bearing deposits</b>	<b>26</b>	<b>145</b>	<b>171</b>
Federal funds purchased and securities sold under agreements to repurchase	—	1	1
Other short-term borrowed funds	(11)	2	(9)
Long-term borrowed funds	37	39	76
<b>Total borrowed funds</b>	<b>26</b>	<b>42</b>	<b>68</b>
<b>Total interest expense</b>	<b>52</b>	<b>187</b>	<b>239</b>
<b>Net interest income</b>	<b>\$244</b>	<b>\$171</b>	<b>\$415</b>

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**Noninterest Income**

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

(in millions)	Year Ended December 31,		Change	Percent
	2017	2016		
Service charges and fees (1)	\$516	\$522	(\$6)	(1%)
Card fees	233	203	30	15
Capital markets fees (1)	194	136	58	43
Trust and investment services fees	158	146	12	8
Letter of credit and loan fees (1)	121	112	9	8
Foreign exchange and interest rate products (1)	109	103	6	6
Mortgage banking fees	108	112	(4)	(4)
Securities gains, net	11	16	(5)	(31)
Other income (1)(2)	84	147	(63)	(43)
<b>Noninterest income</b>	<b>\$1,534</b>	<b>\$1,497</b>	<b>\$37</b>	<b>2%</b>

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

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

Noninterest income of \$1.5 billion in 2017, increased \$37 million, or 2%, compared to 2016 driven by capital market fees, card fees, trust and investment service fees, letter of credit and loan fees and foreign exchange and interest rate products, partially offset by a reduction in service charges and fees, securities gains, mortgage banking fees and other income. Capital market fees increased \$58 million, reflecting underlying business momentum and the impact of building capabilities. Card fees increased \$30 million from 2016 results. Service charges decreased \$6 million and mortgage banking fees decreased \$4 million from 2016. On an Adjusted/Underlying basis,\* noninterest income increased \$98 million, or 7%, compared to 2016.

**Provision for Credit Losses**

Provision for credit losses of \$321 million decreased \$48 million, or 13% from \$369 million in 2016. The \$48 million decrease was primarily due to continued asset quality improvement and the decline in net charge-offs when compared to 2016. The 2017 results reflected a \$16 million reserve build, compared to a \$34 million reserve build for the full year 2016. Net charge-offs for the full year 2017 of \$305 million were \$30 million lower compared to the full year 2016.

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

**Noninterest Expense**

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

(in millions)	Year Ended December 31,		Change	Percent
	2017	2016		
Salaries and employee benefits	\$1,761	\$1,709	\$52	3%
Outside services	404	377	27	7
Occupancy	319	307	12	4
Equipment expense	263	263	—	—
Amortization of software	180	170	10	6
Other operating expense	547	526	21	4
<b>Noninterest expense</b>	<b>\$3,474</b>	<b>\$3,352</b>	<b>\$122</b>	<b>4%</b>

Noninterest expense of \$3.5 billion in 2017 increased \$122 million, or 4%, compared to 2016. Salaries and benefits increased \$52 million, or 3%, driven by merit increases and the impact of hiring associated with strategic

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growth initiatives. Outside services increased \$27 million, or 7%, tied to consumer strategic growth initiatives and technology initiatives. Occupancy expense increased \$12 million, or 4%, reflecting costs associated with our branch strategy, rent and maintenance. Other operating expense increased \$21 million, or 4%. On an Adjusted/Underlying basis,\* noninterest expense increased \$103 million, or 3%, compared to 2016.

**Income Tax Expense**

Income tax expense was \$260 million and \$489 million in 2017 and 2016 , respectively. This resulted in an effective tax rate of 13.6% and 31.9% in 2017 and 2016 , respectively. The decrease in the effective income tax rate from 2016 to 2017 was primarily attributable to the revaluation of our deferred tax liability as a result of 2017 Tax Legislation.

At December 31, 2017 , we reported a net deferred tax liability of \$571 million , compared to a \$714 million liability at December 31, 2016 . The decrease in the net deferred tax liability was primarily attributable to the revaluation of our deferred tax liability as a result of 2017 Tax Legislation.

On December 22, 2017, President Trump signed the 2017 Tax Legislation which included a reduction in the corporate tax rate from 35% to 21%. For Citizens, this required a revaluation of our net deferred tax liability with a corresponding adjustment to current tax expense, and resulted in a \$331 million net tax benefit. Included in this net tax benefit was \$145 million of expense related to the revaluation of our deferred tax assets associated with unrealized losses in AOCI. FASB standards in-place at December 31, 2017 required us to revalue all deferred taxes, including those related to balances in AOCI, through current tax expense. As a result, our unrealized loss balance in AOCI was not revalued to reflect the new corporate tax rate. This impact, commonly referred to as the "stranded tax effect", was taken under consideration by FASB in January 2018 to address concerns primarily raised by banking institutions, including distortion of net income and regulatory capital. In February 2018, to address the "stranded tax effect", FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* , which provides entities the election to reclassify the difference between the new and old corporate tax rates resulting from the 2017 Tax Legislation between retained earnings and AOCI for fiscal years beginning after December 15, 2018, with early adoption permitted. We have retrospectively adopted ASU 2018-02, elected to reclassify \$145 million between AOCI and retained earnings, including indirect impacts from the decreased federal tax effect on future state tax benefits, and reflected this reclassification in our 2017 Consolidated Financial Statements, included in this report.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 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 Year Ended December 31, 2017			
	Consumer Banking	Commercial Banking	Other (3)	Consolidated
Net interest income	\$2,651	\$1,411	\$111	\$4,173
Noninterest income	905	538	91	1,534
Total revenue	3,556	1,949	202	5,707
Noninterest expense	2,593	772	109	3,474
Profit before provision for credit losses	963	1,177	93	2,233
Provision for credit losses	265	19	37	321
Income before income tax expense (benefit)	698	1,158	56	1,912
Income tax expense (benefit)	246	384	(370)	260
<b>Net income</b>	<b>\$452</b>	<b>\$774</b>	<b>\$426</b>	<b>\$1,652</b>
Loans and leases (period-end) (1)	\$60,096	\$48,623	\$2,616	\$111,335
<b>Average Balances:</b>				
Total assets	\$59,714	\$49,747	\$40,492	\$149,953
Total loans and leases (1)	58,371	48,655	2,946	109,972
Deposits	74,873	30,005	6,996	111,874
Interest-earning assets	58,422	48,802	30,258	137,482
<b>Key Performance Metrics:</b>				
Net interest margin	4.54%	2.89%	NM	3.02%
Efficiency ratio	72.93	39.62	NM	60.87
Average loans to average deposits ratio (1)	77.96	162.16	NM	98.30
Return on average total tangible assets	0.76	1.56	NM	1.15
Return on average tangible common equity (2)	8.17	13.70	NM	12.35

(1) Includes loans held for sale

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

(3) 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 — Non-Core Assets."

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

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

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Provision for credit losses is allocated to each business operating segment based on actual net charge-offs that have been recognized by the business operating segment. 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 directly managed by each business operating segment, including fees, service charges, salaries and benefits, and other direct revenues and costs are accounted for within each business operating segment's financial results in a manner similar to our Consolidated Financial Statements. Occupancy costs are allocated based on utilization of facilities by the business operating segment. Noninterest expenses incurred by centrally managed 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 Year Ended December 31,			
	2017	2016	Change	Percent
Net interest income	\$2,651	\$2,443	\$208	9%
Noninterest income	905	883	22	2
Total revenue	3,556	3,326	230	7
Noninterest expense	2,593	2,547	46	2
Profit before provision for credit losses	963	779	184	24
Provision for credit losses	265	243	22	9
Income before income tax expense	698	536	162	30
Income tax expense	246	191	55	29
Net income	\$452	\$345	\$107	31
Loans (period-end) <sup>(1)</sup>	\$60,096	\$57,383	\$2,713	5
<b>Average Balances:</b>				
Total assets	\$59,714	\$56,388	\$3,326	6%
Total loans and leases <sup>(1)</sup>	58,371	55,052	3,319	6
Deposits	74,873	72,003	2,870	4
Interest-earning assets	58,422	55,101	3,321	6
<b>Key Performance Metrics:</b>				
Net interest margin	4.54%	4.43%	11bps	
Efficiency ratio	72.93	76.57	(364bps)	
Average loans to average deposits ratio <sup>(1)</sup>	77.96	76.46	150bps	
Return on average total tangible assets	0.76	0.61	15bps	
Return on average tangible common equity <sup>(2)</sup>	8.17	6.68	149bps	

<sup>(1)</sup> Includes loans held for sale.

<sup>(2)</sup> Business operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 and then allocate that approximation to the business operating segments based on economic capital.

Consumer Banking net income of \$452 million increased \$107 million, or 31%, from \$345 million in the year ended 2016, as the benefit of a \$230 million increase in total revenue more than offset a \$46 million increase in noninterest expense. Net interest income of \$2.7 billion increased \$208 million, or 9%, from the year ended 2016, driven by the benefit of a \$3.3 billion increase in average loans driven by residential mortgage, education and retail unsecured categories, partially offset by an increase in deposit costs.

Noninterest income increased \$22 million, or 2%, from the year ended 2016, driven by an increase in card fees and investment and trust fees, partially offset by lower service charges and fees and mortgage banking fees. Noninterest expense of \$2.6 billion increased \$46 million, or 2%, from the year ended 2016, driven by higher outside services, FDIC expense, salaries and benefits, occupancy costs and advertising expense. These results were partially

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

offset by lower credit collection costs and software amortization. Provision for credit losses of \$265 million increased \$22 million , or 9% , from \$243 million in the year ended 2016 , largely driven by higher net charge-offs in auto.

### Commercial Banking

(dollars in millions)	As of and for the Year Ended December 31,			
	2017	2016	Change	Percent
Net interest income	\$1,411	\$1,288	\$123	10%
Noninterest income	538	466	72	15
<b>Total revenue</b>	<b>1,949</b>	<b>1,754</b>	<b>195</b>	<b>11</b>
Noninterest expense	772	741	31	4
Profit before provision for credit losses	1,177	1,013	164	16
Provision for credit losses	19	47	(28)	(60)
Income before income tax expense	1,158	966	192	20
Income tax expense	384	335	49	15
<b>Net income</b>	<b>\$774</b>	<b>\$631</b>	<b>\$143</b>	<b>23</b>
Loans and leases (period-end) <sup>(1)</sup>	\$48,623	\$47,629	\$994	2
<b>Average Balances:</b>				
Total assets	\$49,747	\$47,159	\$2,588	5%
Total loans and leases <sup>(1)</sup>	48,655	45,903	2,752	6
Deposits	30,005	26,811	3,194	12
Interest-earning assets	48,802	45,978	2,824	6
<b>Key Performance Metrics:</b>				
Net interest margin	2.89%	2.80%	9bps	
Efficiency ratio	39.62	42.26	(264bps)	
Average loans to average deposits ratio <sup>(1)</sup>	162.16	171.21	(905bps)	
Return on average total tangible assets	1.56	1.34	22bps	
Return on average tangible common equity <sup>(2)</sup>	13.70	12.44	126bps	

<sup>(1)</sup> Includes loans held for sale.

<sup>(2)</sup> Business operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 and then allocate that approximation to the business operating segments based on economic capital.

Commercial Banking net income of \$774 million increased \$143 million , or 23% , from \$631 million in the year ended 2016 , as the benefit of a \$195 million increase in total revenue and a \$28 million decrease in provision for credit losses was partially offset by a \$31 million increase in noninterest expense. Net interest income of \$1.4 billion increased \$123 million , or 10% , from \$1.3 billion in the year ended 2016, reflecting a \$2.8 billion increase in average loans and leases, improved loan and deposit spreads, and a \$3.2 billion increase in average deposits.

Noninterest income of \$538 million increased \$72 million , or 15% , from \$466 million in the year ended 2016 , reflecting strength in capital markets, letter of credit and loan fees, card fees and foreign exchange and interest rate products, partially offset by runoff of the Asset Finance portfolio. Noninterest expense of \$772 million increased \$31 million , or 4% , from \$741 million in the year ended 2016, largely driven by higher salaries and employee benefits, FDIC expense, software amortization and equipment expense, partially offset by a reduction in outside services. Provision for credit losses of \$19 million decreased \$28 million from the year ended 2016 , driven by lower net charge-offs in 2016 .

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

Other

(in millions)	As of and for the Year Ended December 31,		Change	Percent
	2017	2016		
Net interest income	\$111	\$27	\$84	NM
Noninterest income	91	148	(57)	(39)
<b>Total revenue</b>	<b>202</b>	<b>175</b>	<b>27</b>	<b>15</b>
Noninterest expense	109	64	45	70
Profit before provision for credit losses	93	111	(18)	(16)
Provision for credit losses	37	79	(42)	(53)
Income before income tax expense (benefit)	56	32	24	75
Income tax expense (benefit)	(370)	(37)	(333)	NM
<b>Net income</b>	<b>\$426</b>	<b>\$69</b>	<b>\$357</b>	<b>NM</b>
Loans and leases (period-end)	\$2,616	\$3,282	(\$666)	(20)
<b>Average Balances:</b>				
Total assets	\$40,492	\$39,636	\$856	2%
Total loans and leases	2,946	2,999	(53)	(2)
Deposits	6,996	6,633	363	5
Interest-earning assets	30,258	29,457	801	3

Other net income of \$426 million increased from \$69 million in the year ended 2016, primarily driven by a \$331 million benefit related to our deferred tax liability in connection with the December 2017 Tax Legislation. Results also reflected an increase of \$84 million in net interest income and lower net charge-offs and a reserve build of \$16 million in the year ended 2017, compared to a reserve build of \$34 million in the year ended 2016.

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

**RESULTS OF OPERATIONS — 2016 compared with 2015**

**Net Income**

Net income totaled \$1.0 billion, reflecting an increase of \$205 million, or 24%, from \$840 million in 2015 . The 2016 results included a \$19 million after-tax benefit from notable items, compared with \$31 million of after tax restructuring charges and special items in 2015 . Excluding the impact of restructuring charges, special items and notable items, adjusted net income\* increased \$155 million, or 18%, from 2015 .

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

(dollars in millions)	Year Ended December 31,		Change	Percent
	2016	2015		
<b>Operating Data:</b>				
Net interest income	\$3,758	\$3,402	\$356	10%
Noninterest income	1,497	1,422	75	5
Total revenue	5,255	4,824	431	9
Provision for credit losses	369	302	67	22
Noninterest expense	3,352	3,259	93	3
Income before income tax expense	1,534	1,263	271	21
Income tax expense	489	423	66	16
<b>Net income</b>	<b>\$1,045</b>	<b>\$840</b>	<b>\$205</b>	<b>24%</b>
Net income available to common stockholders	\$1,031	\$833	\$198	24%
Return on average tangible common equity	7.74%	6.45%	129 bps	

*Return on Equity and Assets*

The following table presents our return on average total assets, return on average common equity, dividend payout ratio and average equity to average assets ratio:

	December 31,	
	2016	2015
Return on average total assets	0.73%	0.62%
Return on average common equity	5.23	4.30
Dividend payout ratio	23.30	25.73
Average equity to average assets ratio	13.93	14.46

# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Net Interest Income

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

(dollars in millions)	Year Ended December 31,						Change	
	2016			2015			Average Balances	Yields/ Rates
	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates		
<b>Assets</b>								
Interest-bearing cash and due from banks and deposits in banks	\$1,931	\$8	0.41%	\$1,746	\$5	0.29%	\$185	12 bps
Taxable investment securities	24,643	584	2.37	24,649	621	2.52	(6)	(15)
Non-taxable investment securities	8	—	2.60	9	—	2.60	(1)	0
<b>Total investment securities</b>	<b>24,651</b>	<b>584</b>	<b>2.37</b>	<b>24,658</b>	<b>621</b>	<b>2.52</b>	<b>(7)</b>	<b>(15)</b>
Commercial	35,652	1,136	3.13	32,673	951	2.87	2,979	26
Commercial real estate	9,741	278	2.81	8,231	211	2.53	1,510	28
Leases	3,841	93	2.41	3,902	97	2.50	(61)	(9)
<b>Total commercial</b>	<b>49,234</b>	<b>1,507</b>	<b>3.01</b>	<b>44,806</b>	<b>1,259</b>	<b>2.78</b>	<b>4,428</b>	<b>23</b>
Residential mortgages	14,005	504	3.60	12,338	465	3.77	1,667	(17)
Home equity loans	2,180	123	5.64	3,025	163	5.38	(845)	26
Home equity lines of credit	14,402	457	3.18	14,958	441	2.95	(556)	23
Home equity loans serviced by others	867	62	7.11	1,117	77	6.94	(250)	17
Home equity lines of credit serviced by others	281	7	2.41	453	11	2.44	(172)	(3)
Automobile	13,953	411	2.94	13,516	372	2.75	437	19
Education (1)	5,558	282	5.08	3,313	167	5.03	2,245	5
Credit cards	1,620	181	11.22	1,621	178	10.97	(1)	25
Other retail	1,288	119	9.23	1,003	78	7.75	285	148
<b>Total retail</b>	<b>54,154</b>	<b>2,146</b>	<b>3.96</b>	<b>51,344</b>	<b>1,952</b>	<b>3.80</b>	<b>2,810</b>	<b>16</b>
<b>Total loans and leases (2)</b>	<b>103,388</b>	<b>3,653</b>	<b>3.51</b>	<b>96,150</b>	<b>3,211</b>	<b>3.32</b>	<b>7,238</b>	<b>19</b>
Loans held for sale, at fair value	425	15	3.40	301	10	3.47	124	(7)
Other loans held for sale	141	6	4.55	95	7	7.22	46	(267)
<b>Interest-earning assets</b>	<b>130,536</b>	<b>4,266</b>	<b>3.25</b>	<b>122,950</b>	<b>3,854</b>	<b>3.12</b>	<b>7,586</b>	<b>13</b>
Allowance for loan and lease losses	(1,227)			(1,196)			(31)	
Goodwill	6,876			6,876			—	
Other noninterest-earning assets	6,998			6,440			558	
<b>Total noninterest-earning assets</b>	<b>12,647</b>			<b>12,120</b>			<b>527</b>	
<b>Total assets</b>	<b>\$143,183</b>			<b>\$135,070</b>			<b>\$8,113</b>	
<b>Liabilities and Stockholders' Equity</b>								
Checking with interest	\$19,320	\$34	0.18%	\$16,666	\$19	0.11%	\$2,654	7 bps
Money market accounts	37,106	133	0.36	35,401	115	0.32	1,705	4
Regular savings	8,691	4	0.04	8,057	2	0.03	634	1
Term deposits	12,696	99	0.78	12,424	101	0.82	272	(4)
<b>Total interest-bearing deposits</b>	<b>77,813</b>	<b>270</b>	<b>0.35</b>	<b>72,548</b>	<b>237</b>	<b>0.33</b>	<b>5,265</b>	<b>2</b>
Federal funds purchased and securities sold under agreements to repurchase (3)	947	2	0.22	3,364	16	0.46	(2,417)	(24)
Other short-term borrowed funds (4)	3,207	40	1.22	5,865	67	1.13	(2,658)	9
Long-term borrowed funds	10,472	196	1.86	4,479	132	2.95	5,993	(109)
<b>Total borrowed funds</b>	<b>14,626</b>	<b>238</b>	<b>1.62</b>	<b>13,708</b>	<b>215</b>	<b>1.56</b>	<b>918</b>	<b>6</b>
<b>Total interest-bearing liabilities</b>	<b>92,439</b>	<b>508</b>	<b>0.55</b>	<b>86,256</b>	<b>452</b>	<b>0.52</b>	<b>6,183</b>	<b>3</b>
Demand deposits	27,634			26,606			1,028	
Other liabilities	3,165			2,671			494	
<b>Total liabilities</b>	<b>123,238</b>			<b>115,533</b>			<b>7,705</b>	
Stockholders' equity	19,945			19,537			408	
<b>Total liabilities and stockholders' equity</b>	<b>\$143,183</b>			<b>\$135,070</b>			<b>\$8,113</b>	

Interest rate spread			2.70%		2.60%	10		
Net interest income		<u>\$3,758</u>			<u>\$3,402</u>			
Net interest margin			2.86%		2.75%	11 bps		
Memo: Total deposits (interest-bearing and demand)	\$105,447	\$270	0.26%	\$99,154	\$237	0.24%	\$6,293	2 bps

(1) During first quarter 2017, student loans were renamed "education" loans. For further information see Note 1 "Basis of Presentation" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

(2) Interest income and rates on loans include loan fees. Additionally, \$1.1 billion of average nonaccrual loans were included in the average loan balances used to determine the average yield on loans for December 2016 and 2015.

(3) Balances are net of certain short-term receivables associated with reverse repurchase agreements. Interest expense includes the full cost of the repurchase agreements and certain hedging costs. The rate on federal funds purchased is elevated due to the impact from pay-fixed interest rate swaps that ran off in 2016. See "—Analysis of Financial Condition— Derivatives" for further information.

(4) The rate on Other short-term borrowed funds is elevated due to the impact from pay-fixed interest rate swaps. See "—Analysis of Financial Condition — Derivatives" for further information.

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

Net interest income of \$3.8 billion in 2016 increased \$356 million, or 10%, compared to \$3.4 billion in 2015, reflecting 8% average loan growth and the benefit of balance sheet optimization strategies and higher rates.

Average interest-earning assets of \$130.5 billion increased \$7.6 billion, or 6%, from 2015, driven by a \$4.4 billion increase in average commercial loans, a \$2.8 billion increase in average retail loans, and a \$185 million increase in average interest-bearing cash and due from banks and deposits in banks. Commercial loan growth was driven by strength in commercial and commercial real estate. Retail loan growth was driven by strength in education, residential mortgage, automobile and other retail loan balances.

Average deposits of \$105.4 billion increased \$6.3 billion from 2015 with particular strength in checking with interest, money market accounts, demand deposits and regular savings. Total interest-bearing deposit costs of \$270 million increased \$33 million, or 14%, from \$237 million in 2015 and reflected a two basis point increase in interest-bearing deposit costs to 0.35%. Checking with interest costs increased to 0.18% in 2016 compared with 0.11% in 2015, term deposit costs decreased to 0.78% in 2016 from 0.82% in 2015, money market account cost increased to 0.36% from 0.32% in 2015, and regular savings account costs increased to 0.04% from 0.03% in 2015.

Total borrowed funds of \$14.6 billion increased \$918 million from 2015. Total borrowed funds costs of \$238 million increased \$23 million from 2015. Within the federal funds purchased and securities sold under agreements to repurchase and other short-term borrowed funds, pay-fixed swap expense declined to \$20 million for 2016 compared to \$58 million in 2015. Including the impact of hedging costs, total borrowed funds rates increased to 1.62% from 1.56% in 2015. The increase in long-term borrowing expense of \$64 million was driven by an increase in senior debt and FHLB borrowings as we continued to realign our liability and capital structure to better align with peers.

Net interest margin of 2.86% increased 11 basis points compared to 2.75% in 2015 driven by the benefit of pricing and portfolio optimization initiatives on loan portfolio mix and yield partially offset by a modest increase in deposit and funding costs and a reduction in investment portfolio yields. Results also reflected the benefit of lower pay-fixed swap expense.

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

The following table presents the change in interest income and interest expense due to changes in both average volume and average rate. Average volume and rate changes have been allocated between the average rate and average volume variances on a consistent basis using the respective percentage changes in average balances and average rates.

(in millions)	Year Ended December 31,		
	2016 Versus 2015		
	Average Volume	Average Rate	Net Change
<b>Interest Income</b>			
Interest-bearing cash and due from banks and deposits in banks	\$1	\$2	\$3
Taxable investment securities	—	(37)	(37)
Non-taxable investment securities	—	—	—
<b>Total investment securities</b>	<b>—</b>	<b>(37)</b>	<b>(37)</b>
Commercial	88	97	185
Commercial real estate	39	28	67
Leases	(2)	(2)	(4)
<b>Total commercial</b>	<b>125</b>	<b>123</b>	<b>248</b>
Residential mortgages	63	(24)	39
Home equity loans	(46)	6	(40)
Home equity lines of credit	(16)	32	16
Home equity loans serviced by others	(16)	1	(15)
Home equity lines of credit serviced by others	(5)	1	(4)
Automobile	12	27	39
Education	113	2	115
Credit cards	—	3	3
Other retail	22	19	41
<b>Total retail</b>	<b>127</b>	<b>67</b>	<b>194</b>
<b>Total loans and leases</b>	<b>252</b>	<b>190</b>	<b>442</b>
Loans held for sale, at fair value	4	1	5
Other loans held for sale	3	(4)	(1)
<b>Total interest income</b>	<b>\$260</b>	<b>\$152</b>	<b>\$412</b>
<b>Interest Expense</b>			
Checking with interest	\$3	\$12	\$15
Money market accounts	5	13	18
Regular savings	1	1	2
Term deposits	2	(4)	(2)
<b>Total interest-bearing deposits</b>	<b>11</b>	<b>22</b>	<b>33</b>
Federal funds purchased and securities sold under agreements to repurchase	(11)	(3)	(14)
Other short-term borrowed funds	(30)	3	(27)
Long-term borrowed funds	177	(113)	64
<b>Total borrowed funds</b>	<b>136</b>	<b>(113)</b>	<b>23</b>
<b>Total interest expense</b>	<b>147</b>	<b>(91)</b>	<b>56</b>
<b>Net interest income</b>	<b>\$113</b>	<b>\$243</b>	<b>\$356</b>

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

**Noninterest Income**

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

(dollars in millions)	Year Ended December 31,		Change	Percent
	2016	2015		
Service charges and fees (1)	\$522	\$500	\$22	4%
Card fees	203	232	(29)	(13)
Capital markets fees (1)	136	104	32	31
Trust and investment services fees	146	157	(11)	(7)
Letter of credit and loan fees (1)	112	110	2	2
Foreign exchange and interest rate products (1)	103	90	13	14
Mortgage banking fees	112	101	11	11
Securities gains, net	16	29	(13)	(45)
Other income (1)(2)	147	99	48	48
<b>Noninterest income</b>	<b>\$1,497</b>	<b>\$1,422</b>	<b>\$75</b>	<b>5%</b>

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

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

Noninterest income of \$1.5 billion in 2016, increased \$75 million, or 5%, compared to 2015, largely driven by a \$67 million pre-tax benefit from notable items in other income. Excluding the impact of these items, adjusted noninterest income\* increased \$8 million, or 1%, as strength in capital markets fees, service charges and fees and mortgage fees were partially offset by the impact of a reclassification of card reward costs, lower securities gains and trust and investment services fees. Capital market fees increased \$32 million reflecting underlying business momentum and the benefit of enhanced product capabilities. Service charges increased \$22 million, driven by both improved pricing and volume. Mortgage banking fees increased \$11 million from 2015 levels that included higher MSR valuation gains driven by increased secondary origination volume and wider margins. Card fees decreased \$29 million from 2015 results, which were \$28 million higher given the reclassification of card reward costs.

**Provision for Credit Losses**

Provision for credit losses of \$369 million increased \$67 million, or 22%, from \$302 million in 2015, largely reflecting the impact of higher commercial net charge-offs, primarily in commodities-related portfolios and commercial real estate driven by the impact of a reduction in recoveries as well as the impact of loan growth. 2016 results reflected a \$34 million reserve build compared to an \$18 million reserve build in 2015, as the impact of loan growth was partially offset by loan mix shifts into higher quality retail products.

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:

(dollars in millions)	Year Ended December 31,		Change	Percent
	2016	2015		
Salaries and employee benefits	\$1,709	\$1,636	\$73	4%
Outside services	377	371	6	2
Occupancy	307	319	(12)	(4)
Equipment expense	263	257	6	2
Amortization of software	170	146	24	16
Other operating expense	526	530	(4)	(1)
<b>Noninterest expense</b>	<b>\$3,352</b>	<b>\$3,259</b>	<b>\$93</b>	<b>3%</b>

# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Noninterest expense of \$3.4 billion in 2016 increased \$93 million, or 3%, compared to 2015 as the impact of higher salaries and employee benefits, amortization of software, equipment expense and outside services expense was partially offset by lower occupancy and other operating expense. Results in 2016 reflected the impact of \$36 million of notable items compared with \$50 million of restructuring charges and special items in 2015. Excluding the impact of restructuring charges, special items and notable items, adjusted noninterest expense\* increased \$107 million, driven by higher salaries and employee benefits as the impact of continued investment in strategic growth initiatives and revenue based incentives were partially offset by the benefit of our efficiency initiatives. Results also reflect increased software amortization expense, outside services expense and equipment expense, partially offset by lower other operating expense.

### **Income Tax Expense**

Income tax expense was \$489 million and \$423 million in 2016 and 2015, respectively. This resulted in an effective tax rate of 31.9% and 33.5% in 2016 and 2015, respectively. The decrease in the effective income tax rate from 2015 to 2016 was primarily attributable to the impact of federal and state tax credits.

At December 31, 2016, we reported a net deferred tax liability of \$714 million, compared to a \$730 million liability at December 31, 2015. The decrease in the net deferred tax liability was primarily attributable to the tax effect of net unrealized losses on securities and derivatives arising during the period largely offset by the tax effect of current year timing adjustments. For further discussion, see Note 22 "Income Taxes" to our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, 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 Year Ended December 31, 2016			
	Consumer Banking	Commercial Banking	Other (1)	Consolidated
Net interest income	\$2,443	\$1,288	\$27	\$3,758
Noninterest income	883	466	148	1,497
<b>Total revenue</b>	<b>3,326</b>	<b>1,754</b>	<b>175</b>	<b>5,255</b>
Noninterest expense	2,547	741	64	3,352
Profit before provision for credit losses	779	1,013	111	1,903
Provision for credit losses	243	47	79	369
Income before income tax expense (benefit)	536	966	32	1,534
Income tax expense (benefit)	191	335	(37)	489
<b>Net income</b>	<b>\$345</b>	<b>\$631</b>	<b>\$69</b>	<b>\$1,045</b>
Loans and leases and loans held for sale (year-end)	\$57,383	\$47,629	\$3,282	\$108,294
<b>Average Balances:</b>				
Total assets	\$56,388	\$47,159	\$39,636	\$143,183
Loans and leases and loans held for sale	55,052	45,903	2,999	103,954
Deposits	72,003	26,811	6,633	105,447
Interest-earning assets	55,101	45,978	29,457	130,536
<b>Key Performance Metrics:</b>				
Net interest margin	4.43%	2.80%	NM	2.86%
Efficiency ratio	76.57	42.26	NM	63.80
Period-end loans to deposits ratio (2)	77.33	166.25	NM	98.62
Average loans to average deposits ratio (2)	76.46	171.21	NM	98.58
Return on average total tangible assets	0.61	1.34	NM	0.76
Return on average tangible common equity (3)	6.68	12.44	NM	7.74

(1) Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses, 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 — Non-Core Assets."

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

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

# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

We operate our business through two business operating segments: Consumer Banking and Commercial Banking. Segment results are derived from our business-line profitability reporting systems by specifically attributing managed assets, liabilities, capital and their related revenues, provision for credit losses and expenses, including income tax expense. Residual assets, liabilities, capital and their related revenues, provision for credit losses and expenses are attributed to Other. For further information, see “—Results of Operations - 2017 compared with 2016 — Business Operating Segments.”

### Consumer Banking

(dollars in millions)	As of and for the Year Ended December 31,			
	2016	2015	Change	Percent
Net interest income	\$2,443	\$2,198	\$245	11%
Noninterest income	883	910	(27)	(3)
Total revenue	3,326	3,108	218	7
Noninterest expense	2,547	2,456	91	4
Profit before provision for credit losses	779	652	127	19
Provision for credit losses	243	252	(9)	(4)
Income before income tax expense	536	400	136	34
Income tax expense	191	138	53	38
Net income	<u>\$345</u>	<u>\$262</u>	<u>\$83</u>	<u>32</u>
Loans and loans held for sale (year-end)	\$57,383	\$53,344	\$4,039	8
<b>Average Balances:</b>				
Total assets	\$56,388	\$52,848	\$3,540	7%
Loans and leases and loans held for sale	55,052	51,484	3,568	7
Deposits	72,003	69,748	2,255	3
Interest-earning assets	55,101	51,525	3,576	7
<b>Key Performance Metrics:</b>				
Net interest margin	4.43%	4.27%	16bps	—
Efficiency ratio	76.57	79.02	(245bps)	—
Period-end loans to deposits ratio <sup>(1)</sup>	77.33	74.53	280bps	—
Average loans to average deposits ratio <sup>(1)</sup>	76.46	73.81	265bps	—
Return on average total tangible assets	0.61	0.50	11bps	—
Return on average tangible common equity <sup>(2)</sup>	6.68	5.53	115bps	—

<sup>(1)</sup> Ratios include loans and leases held for sale.

<sup>(2)</sup> Business operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 capital and then allocate that approximation to the business operating segments based on economic capital.

Consumer Banking net income of \$345 million in 2016 increased \$83 million, or 32%, from 2015, reflecting an increase in total revenue, partially offset by an increase in noninterest expense.

Consumer Banking total revenue of \$3.3 billion in 2016 increased \$218 million from 2015, as net interest income increased driven by loan and deposit growth.

Net interest income of \$2.4 billion increased 11% from 2015, driven by the benefit of \$3.6 billion average loan growth, reflecting growth in education, residential mortgage, auto and other retail loans as well as improved loan yields.

Noninterest income decreased \$27 million, or 3%, largely as growth in service charges and fees and mortgage banking fees were more than offset by the impact of a reclassification of card reward costs and lower trust and investment services fees.

Noninterest expense of \$2.5 billion in 2016 increased \$91 million, or 4%, from \$2.5 billion in 2015, driven by higher salaries and benefits, outside services expense, amortization of software and other operating expense, partially offset by the impact of a reclassification of card reward costs.

Provision for credit losses of \$243 million in 2016 decreased \$9 million, or 4%, from \$252 million in 2015, largely reflecting the benefit of lower real estate secured net charge-offs.

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

*Commercial Banking*

(dollars in millions)	As of and for the Year Ended December 31,			
	2016	2015	Change	Percent
Net interest income	\$1,288	\$1,162	\$126	11%
Noninterest income	466	415	51	12
<b>Total revenue</b>	<b>1,754</b>	<b>1,577</b>	<b>177</b>	<b>11</b>
Noninterest expense	741	709	32	5
Profit before provision for credit losses	1,013	868	145	17
Provision for credit losses	47	(13)	60	NM
Income before income tax expense	966	881	85	10
Income tax expense	335	302	33	11
<b>Net income</b>	<b>\$631</b>	<b>\$579</b>	<b>\$52</b>	<b>9</b>
Loans and leases and loans held for sale (year-end)	\$47,629	\$42,987	\$4,642	11
<b>Average Balances:</b>				
Total assets	\$47,159	\$42,800	\$4,359	10%
Loans and leases and loans held for sale	45,903	41,593	4,310	10
Deposits	26,811	23,473	3,338	14
Interest-earning assets	45,978	41,689	4,289	10
<b>Key Performance Metrics:</b>				
Net interest margin	2.80%	2.79%	1bps	
Efficiency ratio	42.26	44.94	(268bps)	
Period-end loans to deposits ratio <sup>(1)</sup>	166.25	172.59	(634bps)	
Average loans to average deposits ratio <sup>(1)</sup>	171.21	177.19	(598bps)	
Return on average total tangible assets	1.34	1.35	(1bps)	
Return on average tangible common equity <sup>(2)</sup>	12.44	12.41	3bps	

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

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

Commercial Banking net income of \$631 million increased \$52 million, or 9%, from 2015, as an increase in total revenue was partially offset by an increase in noninterest expense and provision for credit losses.

Net interest income of \$1.3 billion in 2016 increased \$126 million, or 11%, from 2015, reflecting the benefit of an increase of \$4.3 billion in average loan balances and \$3.3 billion in average deposits.

Noninterest income of \$466 million in 2016 increased \$51 million, or 12%, from 2015, reflecting strength in capital markets fees, service charges and fees and interest rate products.

Noninterest expense of \$741 million in 2016 increased \$32 million, or 5%, from \$709 million in 2015, driven by an increase in salary and employee benefits largely tied to revenue based incentive costs as well as higher FDIC insurance costs.

Provision for credit losses of \$47 million in 2016, increased \$60 million, from a net recovery of prior period charge-offs of \$13 million in 2015, driven by higher losses in the commercial loan portfolio largely tied to commodities-related credits.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Other

(dollars in millions)	As of and for the Year Ended December 31,		Change	Percent
	2016	2015		
Net interest income	\$27	\$42	(\$15)	(36%)
Noninterest income	148	97	51	53
Total revenue	175	139	36	26
Noninterest expense	64	94	(30)	(32)
Profit before provision for credit losses	111	45	66	147
Provision for credit losses	79	63	16	25
Income (loss) before income tax benefit	32	(18)	50	NM
Income tax benefit	(37)	(17)	(20)	(118)
<b>Net income (loss)</b>	<b>\$69</b>	<b>(\$1)</b>	<b>\$70</b>	<b>NM</b>
Loans and leases and loans held for sale (year-end)	\$3,282	\$3,076	\$206	7
<b>Average Balances:</b>				
Total assets	\$39,636	\$39,422	\$214	1%
Loans and leases and loans held for sale	2,999	3,469	(470)	(14)
Deposits and deposits held for sale	6,633	5,933	700	12
Interest-earning assets	29,457	29,736	(279)	(1)

Other recorded net income of \$69 million in 2016 compared to net loss of \$1 million in 2015, driven by the net impact of notable items, restructuring charges and special items and lower noninterest expense, offset by an increase in provision for credit losses and a decrease in net interest income. On a quarterly basis, we review and refine our estimate of the allowance for credit losses, taking into consideration changes in portfolio size and composition, historical loss experience, internal risk ratings, current economic conditions, industry-performance trends and other pertinent information.

As mentioned previously, Other includes the non-core portfolio. Non-core assets of \$2.8 billion as of December 31, 2016 increased \$422 million, or 18%, from December 31, 2015. These results were driven by a \$909 million increase in total commercial non-core loans related to the transfer of a \$1.2 billion lease and loan portfolio tied to legacy The Royal Bank of Scotland Group plc aircraft leasing borrowers that we placed in runoff following a review of Asset Finance in third quarter 2016. The increase in commercial non-core loans was partially offset by a \$616 million decrease in total retail non-core loans.

**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)	December 31, 2017		December 31, 2016		December 31, 2015		Change in Fair Value from 2017-2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value		
<b>Securities Available for Sale:</b>								
U.S. Treasury and other	\$12	\$12	\$30	\$30	\$16	\$16	(\$18)	(60%)
State and political subdivisions	6	6	8	8	9	9	(2)	(25)
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	20,065	19,828	19,231	19,045	17,234	17,320	783	4
Other/non-agency	311	311	427	401	555	522	(90)	(22)
Total mortgage-backed securities	20,376	20,139	19,658	19,446	17,789	17,842	693	4
Total debt securities	20,394	20,157	19,696	19,484	17,814	17,867	673	3
Marketable equity securities	—	—	5	5	5	5	(5)	(100)
Other equity securities	—	—	12	12	12	12	(12)	(100)
Total equity securities	—	—	17	17	17	17	(17)	(100)
Total securities available for sale	\$20,394	\$20,157	\$19,713	\$19,501	\$17,831	\$17,884	\$656	3%
<b>Securities Held to Maturity:</b>								
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	\$3,853	\$3,814	\$4,126	\$4,094	\$4,105	\$4,121	(\$280)	(7%)
Other/non-agency	832	854	945	964	1,153	1,176	(110)	(11)
Total securities held to maturity	\$4,685	\$4,668	\$5,071	\$5,058	\$5,258	\$5,297	(\$390)	(8%)
<b>Other Investment Securities, at Fair Value:</b>								
Money market mutual fund	\$165	\$165	\$91	\$91	\$65	\$65	\$74	81%
Other investments	4	4	5	5	5	5	(1)	(20)
Total other investment securities, at fair value	\$169	\$169	\$96	\$96	\$70	\$70	\$73	76%
<b>Other Investment Securities, at Cost:</b>								
Federal Reserve Bank stock	\$463	\$463	\$463	\$463	\$468	\$468	\$—	—%
Federal Home Loan Bank stock	252	252	479	479	395	395	(227)	(47)
Other equity securities	7	7	—	—	—	—	7	100
Total other investment securities, at cost	\$722	\$722	\$942	\$942	\$863	\$863	(\$220)	(23%)

As of December 31, 2017, the fair value of the AFS and HTM securities portfolio increased \$266 million to \$24.8 billion, compared with \$24.6 billion as of December 31, 2016, primarily driven by net purchases of \$295 million in securities that were bought for liquidity management purposes.

As of December 31, 2017, the portfolio's average effective duration was 3.9 years compared with 4.3 years as of December 31, 2016. Lower year-end primary mortgage rates, which increased estimated prepayment speeds, and the passage of time, reduced the duration on mortgage backed securities. 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 92% of the securities portfolio holdings. The portfolio composition is also dominated by holdings backed by mortgages to facilitate our ability to pledge them to the FHLBs. This has become increasingly important due to the enhanced liquidity requirements of the liquidity

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

coverage ratio and the liquidity stress test. For further discussion of the liquidity coverage ratios, see "Regulation and Supervision — Liquidity Standards" in Part I, Item 1 — Business, included in this report.

The following table presents an analysis of the amortized cost, remaining contractual maturities, and weighted-average yields by contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without incurring penalties.

(dollars in millions)	As of December 31, 2017				Total
	Distribution of Maturities				
	Due in 1 Year or Less	Due After 1 Through 5 Years	Due After 5 Through 10 Years	Due After 10 Years	
<b>Amortized cost:</b>					
<b>Debt securities available for sale:</b>					
U.S. Treasury and other	\$12	\$—	\$—	\$—	\$12
State and political subdivisions	—	—	—	6	6
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	261	1,067	18,737	20,065
Other/non-agency	1	21	—	289	311
<b>Total debt securities available for sale</b>	<b>13</b>	<b>282</b>	<b>1,067</b>	<b>19,032</b>	<b>20,394</b>
<b>Debt securities held to maturity:</b>					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	3,853	3,853
Other/non-agency	—	—	—	832	832
<b>Total debt securities held to maturity</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,685</b>	<b>4,685</b>
<b>Total amortized cost of debt securities (1)</b>	<b>\$13</b>	<b>\$282</b>	<b>\$1,067</b>	<b>\$23,717</b>	<b>\$25,079</b>
<b>Weighted-average yield (2)</b>	<b>1.68%</b>	<b>2.11%</b>	<b>2.31%</b>	<b>2.50%</b>	<b>2.49%</b>

(1) As of December 31, 2017, no investments exceeded 10% of stockholders' equity.

(2) Yields on tax-exempt securities are not computed on a tax-equivalent basis.

**Loans and Leases**

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

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

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

(in millions)	December 31,					Change from 2017-2016	
	2017	2016	2015	2014	2013	\$	%
Commercial	\$37,562	\$37,274	\$33,264	\$31,431	\$28,667	\$288	1 %
Commercial real estate	11,308	10,624	8,971	7,809	6,948	684	6
Leases	3,161	3,753	3,979	3,986	3,780	(592)	(16)
Total commercial loans and leases	52,031	51,651	46,214	43,226	39,395	380	1
Residential mortgages	17,045	15,115	13,318	11,832	9,726	1,930	13
Home equity loans	1,392	1,858	2,557	3,424	4,301	(466)	(25)
Home equity lines of credit	13,483	14,100	14,674	15,423	15,667	(617)	(4)
Home equity loans serviced by others	542	750	986	1,228	1,492	(208)	(28)
Home equity lines of credit serviced by others	149	219	389	550	679	(70)	(32)
Automobile	13,204	13,938	13,828	12,706	9,397	(734)	(5)
Education (1)	8,134	6,610	4,359	2,256	2,208	1,524	23
Credit cards	1,848	1,691	1,634	1,693	1,691	157	9
Other retail	2,789	1,737	1,083	1,072	1,303	1,052	61
Total retail loans	58,586	56,018	52,828	50,184	46,464	2,568	5
Total loans and leases	\$110,617	\$107,669	\$99,042	\$93,410	\$85,859	\$2,948	3%

(1) During first quarter 2017, student loans were renamed "education" loans. For further information see Note 1 "Basis of Presentation" to our audited Consolidated Financial Statements in Part II, Item 8 - Financial Statements and Supplementary Data, included in this report.

Total loans and leases of \$110.6 billion as of December 31, 2017, increased \$2.9 billion, or 3%, from \$107.7 billion as of December 31, 2016, reflecting growth in commercial and retail products. Total commercial loans and leases of \$52.0 billion increased \$380 million, or 1%, from \$51.7 billion as of December 31, 2016, reflecting commercial loan growth of \$288 million and commercial real estate loan growth of \$684 million, partially offset by the decline of \$592 million in leases. The change in commercial loans also reflected the impact of the second quarter 2017 sale of \$596 million of lower-return, non-strategic commercial loans and leases associated with balance sheet optimization initiatives. Total retail loans of \$58.6 billion increased \$2.6 billion, or 5%, from \$56.0 billion as of December 31, 2016, largely driven by a \$1.5 billion increase in education loans and a \$1.9 billion increase in residential mortgages, partially offset by lower home equity and auto balances.

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

*Maturities and Sensitivities of Loans and Leases to Changes in Interest Rates*

The following table is a summary of loans and leases by remaining maturity or repricing date:

(in millions)	December 31, 2017			
	Due in 1 Year or Less	Due After 1 Year Through 5 Years	Due After 5 Years	Total Loans and Leases
Commercial	\$32,953	\$3,012	\$1,597	\$37,562
Commercial real estate	11,104	104	100	11,308
Leases	605	1,879	677	3,161
Total commercial loans and leases	44,662	4,995	2,374	52,031
Residential mortgages	1,248	1,501	14,296	17,045
Home equity loans	385	236	771	1,392
Home equity lines of credit	12,822	155	506	13,483
Home equity loans serviced by others	1	509	32	542
Home equity lines of credit serviced by others	149	—	—	149
Automobile	145	8,106	4,953	13,204
Education	14	763	7,357	8,134
Credit cards	1,538	310	—	1,848
Other retail	568	1,524	697	2,789
Total retail loans	16,870	13,104	28,612	58,586
<b>Total loans and leases</b>	<b>\$61,532</b>	<b>\$18,099</b>	<b>\$30,986</b>	<b>\$110,617</b>
Loans and leases due after one year at fixed interest rates		\$14,628	\$20,824	\$35,452
Loans and leases due after one year at variable interest rates		3,471	10,162	13,633

*Loan and Lease Concentrations*

At December 31, 2017, we did not identify any concentration of loans and leases exceeding 10% of total loans and leases that were not otherwise disclosed as a category of loans and leases. For further information on how we manage concentration exposures, see Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

**Non-Core Assets**

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

(in millions)	December 31,		Change	Percent
	2017	2016		
Commercial	\$56	\$144	(\$88)	(61%)
Commercial real estate	19	59	(40)	(68)
Leases	752	874	(122)	(14)
Total commercial loans and leases	827	1,077	(250)	(23)
Residential mortgages	136	173	(37)	(21)
Home equity loans	40	45	(5)	(11)
Home equity lines of credit	30	50	(20)	(40)
Home equity loans serviced by others	542	750	(208)	(28)
Home equity lines of credit serviced by others	149	219	(70)	(32)
Education	254	291	(37)	(13)
Total retail loans	1,151	1,528	(377)	(25)
Total non-core loans	1,978	2,605	(627)	(24)
Other assets	112	155	(43)	(28)
<b>Total non-core assets</b>	<b>\$2,090</b>	<b>\$2,760</b>	<b>(\$670)</b>	<b>(24%)</b>

# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-core assets are primarily liquidating loan and lease portfolios inconsistent with our strategic priorities, generally as a result of geographic location, industry, product type or risk level and are included in Other. Non-core assets of \$2.1 billion as of December 31, 2017 decreased \$670 million, or 24%, from December 31, 2016.

Retail non-core loan balances of \$1.2 billion decreased \$377 million, or 25%, compared to December 31, 2016. The largest component of our retail non-core portfolio is the home equity SBO portfolio, which totaled \$691 million as of December 31, 2017, compared to \$969 million as of December 31, 2016. The SBO portfolio represented 2% of the retail real estate secured portfolio and 1% of the overall retail loan portfolio as of December 31, 2017. The SBO portfolio is a liquidating portfolio consisting of pools of home equity loans and lines of credit purchased between 2003 and 2007. Although our SBO portfolio consists of loans that were initially serviced by others, we now service a portion of this portfolio internally. SBO balances serviced externally totaled \$372 million and \$505 million as of December 31, 2017 and 2016, respectively.

The credit profile of the SBO portfolio reflected a weighted-average refreshed FICO score of 709 and CLTV of 81% as of December 31, 2017. The proportion of the portfolio in a second lien position was 97%, with 70% of the portfolio in out-of-footprint geographies. SBO net recoveries of \$5 million in 2017 reflected a \$30 million improvement from 2016, driven by continued portfolio seasoning, recoveries from aged charge-offs, and balance liquidation.

Commercial non-core loan and lease balances of \$827 million decreased \$250 million, or 23%, from \$1.1 billion as of December 31, 2016. The largest component of our commercial non-core portfolio is an aircraft-related loan and lease portfolio tied to legacy-Royal Bank of Scotland Group plc aircraft leasing borrowers, which totaled \$752 million as of December 31, 2017 and \$917 million as of December 31, 2016. During second quarter 2017, we recorded a \$26 million pre-tax impairment write-down largely related to certain large-cabin aircraft lease assets primarily in the non-core portfolio.

### **Allowance for Credit Losses and Nonperforming Assets**

The allowance for credit losses, which consists of an ALLL and a reserve for unfunded lending commitments, is created through charges to the provision for credit losses in order to provide appropriate reserves to absorb future estimated credit losses in accordance with GAAP. For further information on our processes to determine our allowance for credit losses, see "—Critical Accounting Estimates — Allowance for Credit Losses," and Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

#### *Summary of Loan and Lease Loss Experience*

The following table presents a summary of the changes to our ALLL:

(dollars in millions)	As of and for the Year Ended December 31,				
	2017	2016	2015	2014	2013
<b>Allowance for Loan and Lease Losses — Beginning:</b>					
Commercial	\$516	\$376	\$388	\$361	\$379
Commercial real estate	99	111	61	78	111
Leases	48	23	23	24	19
Qualitative <sup>(1)</sup>	—	86	72	35	—
Total commercial loans and leases	663	596	544	498	509
Residential mortgages	55	46	63	104	74
Home equity loans	24	39	50	85	82
Home equity lines of credit	139	132	152	159	107
Home equity loans serviced by others	15	29	47	85	146
Home equity lines of credit serviced by others	4	3	11	18	32
Automobile	127	106	58	23	30
Education	102	96	93	83	75
Credit cards	74	60	68	72	65
Other retail	33	28	32	34	46
Qualitative <sup>(1)</sup>	—	81	77	60	—
Total retail loans	573	620	651	723	657
Unallocated <sup>(1)</sup> (Eliminated in 2013)	—	—	—	—	89
Total allowance for loan and lease losses — beginning	\$1,236	\$1,216	\$1,195	\$1,221	\$1,255

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	As of and for the Year Ended December 31,				
(dollars in millions)	2017	2016	2015	2014	2013
<b>Gross Charge-offs:</b>					
Commercial	(\$62)	(\$56)	(\$30)	(\$31)	(\$72)
Commercial real estate	(13)	(14)	(6)	(12)	(36)
Leases	—	(9)	—	—	—
Total commercial loans and leases	(75)	(79)	(36)	(43)	(108)
Residential mortgages	(11)	(21)	(22)	(36)	(54)
Home equity loans	(11)	(16)	(34)	(55)	(77)
Home equity lines of credit	(34)	(43)	(59)	(80)	(102)
Home equity loans serviced by others	(15)	(38)	(32)	(55)	(119)
Home equity lines of credit serviced by others	(5)	(12)	(14)	(12)	(27)
Automobile	(181)	(160)	(117)	(41)	(19)
Education	(59)	(52)	(51)	(54)	(74)
Credit cards	(61)	(58)	(59)	(64)	(68)
Other retail	(60)	(57)	(56)	(53)	(55)
Total retail loans	(437)	(457)	(444)	(450)	(595)
Total gross charge-offs	(\$512)	(\$536)	(\$480)	(\$493)	(\$703)
<b>Gross Recoveries:</b>					
Commercial	\$37	\$21	\$18	\$35	\$46
Commercial real estate	3	12	31	23	40
Leases	—	—	—	—	1
Total commercial loans and leases	40	33	49	58	87
Residential mortgages	6	9	12	11	10
Home equity loans	13	18	11	24	26
Home equity lines of credit	16	18	18	15	19
Home equity loans serviced by others	18	19	17	21	23
Home equity lines of credit serviced by others	7	6	8	5	5
Automobile	73	65	49	20	12
Education	15	11	12	9	13
Credit cards	7	8	8	7	7
Other retail	12	14	12	—	—
Total retail loans	167	168	147	112	115
Total gross recoveries	\$207	\$201	\$196	\$170	\$202
<b>Net (Charge-offs)/Recoveries:</b>					
Commercial	(\$25)	(\$35)	(\$12)	\$4	(\$26)
Commercial real estate	(10)	(2)	25	11	4
Leases	—	(9)	—	—	1
Total commercial loans and leases	(35)	(46)	13	15	(21)
Residential mortgages	(5)	(12)	(10)	(25)	(44)
Home equity loans	2	2	(23)	(31)	(51)
Home equity lines of credit	(18)	(25)	(41)	(65)	(83)
Home equity loans serviced by others	3	(19)	(15)	(34)	(96)
Home equity lines of credit serviced by others	2	(6)	(6)	(7)	(22)
Automobile	(108)	(95)	(68)	(21)	(7)
Education	(44)	(41)	(39)	(45)	(61)
Credit cards	(54)	(50)	(51)	(57)	(61)
Other retail	(48)	(43)	(44)	(53)	(55)
Total retail loans	(270)	(289)	(297)	(338)	(480)

Total net (charge-offs)/recoveries	<u>(\$305)</u>	<u>(\$335)</u>	<u>(\$284)</u>	<u>(\$323)</u>	<u>(\$501)</u>
Ratio of net charge-offs to average loans and leases	(0.28%)	(0.32%)	(0.30%)	(0.36%)	(0.59%)

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

	As of and for the Year Ended December 31,				
(dollars in millions)	2017	2016	2015	2014	2013
<b>Provision for Loan and Lease Losses:</b>					
Commercial	\$50	\$117	\$—	\$23	\$13
Commercial real estate	32	(17)	25	(28)	(36)
Leases	(25)	34	—	(1)	4
Qualitative <sup>(1)</sup>	—	(21)	14	37	—
Total commercial loans and leases	57	113	39	31	(19)
Residential mortgages	(6)	8	(7)	(16)	53
Home equity loans	(7)	(22)	12	(4)	32
Home equity lines of credit	(34)	9	21	58	85
Home equity loans serviced by others	(6)	(1)	(3)	(4)	35
Home equity lines of credit serviced by others	(2)	6	(2)	—	8
Automobile	120	99	116	56	—
Education	62	21	42	55	69
Credit cards	52	53	43	53	71
Other retail	69	42	40	51	43
Qualitative <sup>(1)</sup>	—	27	4	17	—
Total retail loans	248	242	266	266	396
Unallocated <sup>(1)</sup> (Eliminated in 2013)	—	—	—	—	103
Total provision for loan and lease losses	\$305	\$355	\$305	\$297	\$480
<b>Transfers - General Allowance to Qualitative Allowance: <sup>(1)</sup></b>					
Commercial loans and leases	\$—	\$—	\$—	\$—	\$35
Retail loans	—	—	—	—	60
Unallocated <sup>(1)</sup> (Eliminated in 2013)	—	—	—	—	(95)
Total Transfers	\$—	\$—	\$—	\$—	\$—
<b>Retail Emergence Period Change: <sup>(2)</sup></b>					
Residential mortgages	\$—	\$—	\$—	\$—	\$21
Home equity loans	—	—	—	—	22
Home equity lines of credit	—	—	—	—	53
Total retail loans	—	—	—	—	96
Unallocated <sup>(1)</sup> (Eliminated in 2013)	—	—	—	—	(96)
Total emergence period change	\$—	\$—	\$—	\$—	\$96
<b>Sale/Other:</b>					
Commercial	\$—	\$—	\$—	\$—	(\$5)
Commercial real estate	—	—	—	—	(1)
Leases	—	—	—	—	—
Total commercial loans and leases	—	—	—	—	(6)
Residential mortgages	—	—	—	—	—
Home equity loans	—	—	—	—	—
Home equity lines of credit	—	—	—	—	(3)
Home equity loans serviced by others	—	—	—	—	—
Home equity lines of credit serviced by others	—	—	—	—	—
Automobile	—	—	—	—	—
Education	—	—	—	—	—
Credit cards	—	—	—	—	(3)
Other retail	—	—	—	—	—
Total retail loans	—	—	—	—	(6)
Unallocated <sup>(1)</sup> (Eliminated in 2013)	—	—	—	—	(1)

Total sale/other	\$	\$	\$	\$	(\$13)
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**CITIZENS FINANCIAL GROUP, INC.**  
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(dollars in millions)	As of and for the Year Ended December 31,				
	2017	2016	2015	2014	2013
<b>Total Allowance for Loan and Lease Losses — Ending:</b>					
Commercial	541	458	\$376	\$388	\$361
Commercial real estate	121	92	111	61	78
Leases	23	48	23	23	24
Qualitative <sup>(1)</sup>	—	65	86	72	35
Total commercial loans and leases	685	663	596	544	498
Residential mortgages	44	42	46	63	104
Home equity loans	19	19	39	50	85
Home equity lines of credit	87	116	132	152	159
Home equity loans serviced by others	12	9	29	47	85
Home equity lines of credit serviced by others	4	3	3	11	18
Automobile	139	110	106	58	23
Education	120	76	96	93	83
Credit cards	72	63	60	68	72
Other retail	54	27	28	32	34
Qualitative <sup>(1)</sup>	—	108	81	77	60
Total retail loans	551	573	620	651	723
Unallocated <sup>(1)</sup> (Eliminated in 2013)	—	—	—	—	—
Total allowance for loan and lease losses — ending	\$1,236	\$1,236	\$1,216	\$1,195	\$1,221
<b>Reserve for Unfunded Lending Commitments — Beginning</b>	\$72	\$58	\$61	\$39	\$40
Provision for unfunded lending commitments	16	14	(3)	22	(1)
Reserve for unfunded lending commitments — ending	\$88	\$72	\$58	\$61	\$39
<b>Total Allowance for Credit Losses — Ending</b>	<b>\$1,324</b>	<b>\$1,308</b>	<b>\$1,274</b>	<b>\$1,256</b>	<b>\$1,260</b>

(1) As discussed in Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report, the ALLL is reviewed separately for commercial and retail loans, and the ALLL for each includes an adjustment for a qualitative allowance that includes certain risks, factors and events that might not be measured in the statistical analysis. As a result of this adjustment, the unallocated allowance was absorbed into the separately measured commercial and retail qualitative allowance during 2013. 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. The qualitative allowance is presented within each loan class beginning in 2017, and prior periods have not been reclassified to conform to the current presentation.

(2) During December 2016, changes to the incurred loss period were reflected as components of the provision for retail property secured products. During December 2013, we updated our estimate of the incurred loss period for certain residential mortgages. This change reflected an analysis of defaulted borrowers and aligned to management's view that incurred but unrealized losses emerge differently during various points of an economic/business cycle.

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*Allocation of the Allowance for Loan and Lease Losses*

The following table presents an allocation of the ALLL by class and the percent of each class of loans and leases to the total loans and leases:

(dollars in millions)	December 31,									
	2017		2016		2015		2014		2013	
Commercial	\$541	34%	\$458	35%	\$376	34%	\$388	34%	\$361	33%
Commercial real estate	121	10	92	10	111	9	61	8	78	8
Leases	23	3	48	3	23	4	23	4	24	5
Qualitative (1)	—	N/A	65	N/A	86	N/A	72	N/A	35	N/A
<b>Total commercial loans and leases</b>	<b>685</b>	<b>47</b>	<b>663</b>	<b>48</b>	<b>596</b>	<b>47</b>	<b>544</b>	<b>46</b>	<b>498</b>	<b>46</b>
Residential mortgages	44	15	42	14	46	13	63	13	104	11
Home equity loans	19	1	19	2	39	3	50	4	85	5
Home equity lines of credit	87	12	116	13	132	15	152	16	159	18
Home equity loans serviced by others	12	1	9	1	29	1	47	1	85	2
Home equity lines of credit serviced by others	4	—	3	—	3	—	11	1	18	1
Automobile	139	12	110	13	106	14	58	14	23	11
Education	120	7	76	6	96	4	93	2	83	3
Credit cards	72	2	63	1	60	2	68	2	72	2
Other retail	54	3	27	2	28	1	32	1	34	1
Qualitative (1)	—	N/A	108	N/A	81	N/A	77	N/A	60	N/A
<b>Total retail loans</b>	<b>551</b>	<b>53</b>	<b>573</b>	<b>52</b>	<b>620</b>	<b>53</b>	<b>651</b>	<b>54</b>	<b>723</b>	<b>54</b>
<b>Total loans and leases</b>	<b>\$1,236</b>	<b>100%</b>	<b>\$1,236</b>	<b>100%</b>	<b>\$1,216</b>	<b>100%</b>	<b>\$1,195</b>	<b>100%</b>	<b>\$1,221</b>	<b>100%</b>

(1) The qualitative allowance is presented within each loan class beginning in 2017, and prior periods have not been reclassified to conform to the current presentation.

The allowance for credit losses totaled \$1.3 billion at December 31, 2017 and 2016 . The ALLL represented 1.12% of total loans and leases and 142% of nonperforming loans and leases as of December 31, 2017 compared with 1.15% and 118% , respectively, as of December 31, 2016 .

Overall credit quality remained strong, reflecting growth in higher-quality, lower-risk retail loans and a broadly stable risk profile in the commercial loans and leases portfolios. Nonperforming loans and leases of \$871 million as of December 31, 2017 decreased \$174 million from December 31, 2016 , driven by a \$122 million decrease in commercial nonperforming loans, mainly due to a reduction in commodities-related credits, and a \$52 million decrease in retail nonperforming loans, largely reflecting a \$74 million decrease in real estate secured categories, partially offset by a \$20 million increase in auto. Net charge-offs of \$305 million decreased \$30 million , or 9% , from \$335 million in 2016 . Net charge-offs as a percentage of total average loans of 0.28% decreased four basis points compared to 2016 .

# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Risk Elements

The following table presents a summary of nonaccrual, past due and restructured loans and leases by class:

(in millions)	December 31,				
	2017	2016	2015	2014	2013
<b>Nonaccrual loans and leases</b>					
Commercial	\$238	\$322	\$70	\$113	\$96
Commercial real estate	27	50	77	50	169
Leases	—	15	—	—	—
Total commercial loans and leases	265	387	147	163	265
Residential mortgages	128	144	331	345	382
Home equity loans	72	98	135	203	266
Home equity lines of credit	233	243	272	257	333
Home equity loans serviced by others	25	32	38	47	59
Home equity lines of credit serviced by others	18	33	32	25	30
Automobile	70	50	42	21	16
Education	38	38	35	11	3
Credit cards	17	16	16	16	19
Other retail	5	4	3	5	10
Total retail loans	606	658	904	930	1,118
<b>Total nonaccrual loans and leases</b>	<b>\$871</b>	<b>\$1,045</b>	<b>\$1,051</b>	<b>\$1,093</b>	<b>\$1,383</b>
<b>Loans and leases that are accruing and 90 days or more delinquent</b>					
Commercial	5	2	1	1	—
Commercial real estate	3	—	—	—	—
Leases	—	—	—	—	—
Total commercial loans and leases	8	2	1	1	—
Residential mortgages	16	18	—	—	—
Home equity loans	—	—	—	—	—
Home equity lines of credit	—	—	—	—	—
Home equity loans serviced by others	—	—	—	—	—
Home equity lines of credit serviced by others	—	—	—	—	—
Automobile	—	—	—	—	—
Education	3	5	6	6	31
Credit cards	—	—	—	1	2
Other retail	5	1	2	—	—
Total retail loans	24	24	8	7	33
<b>Total accruing and 90 days or more delinquent</b>	<b>32</b>	<b>26</b>	<b>9</b>	<b>8</b>	<b>33</b>
<b>Total</b>	<b>\$903</b>	<b>\$1,071</b>	<b>\$1,060</b>	<b>\$1,101</b>	<b>\$1,416</b>
<b>Troubled debt restructurings (1)</b>	<b>\$629</b>	<b>\$633</b>	<b>\$909</b>	<b>\$955</b>	<b>\$777</b>

(1) TDR balances reported in this line item consist of only those TDRs not reported in the nonaccrual loan or accruing and 90 days or more delinquent loan categories. Thus, only those TDRs that are in compliance with their modified terms and not past due, or those TDRs that are past due 30-89 days and still accruing are included in the TDR balances listed above.

### Potential Problem Loans and Leases

At December 31, 2017, we did not identify any potential problem loans or leases within the portfolio that were not already included in “Risk Elements.” Potential problem loans or leases consist of loans and leases where information about a borrower’s possible credit problems cause management to have serious doubts as to the ability of such borrowers to comply with the present repayment terms.

### Commercial Loan Asset Quality

Our commercial loan and lease portfolio consists of traditional commercial loans, commercial leases and commercial real estate loans. 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.



# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For commercial loans and leases, we use regulatory classification ratings to monitor credit quality. Loans with a "pass" rating are those that we believe will be fully repaid in accordance with the contractual loan terms. Commercial loans and leases that are "criticized" are those that have some weakness that indicates an increased probability of future loss. See Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

Nonperforming commercial loans and leases decreased \$122 million to \$265 million as of December 31, 2017 from \$387 million as of December 31, 2016, largely tied to commodities-related credits. As of December 31, 2017, total commercial nonperforming loans were 0.5% of the commercial loan portfolio compared to 0.7% as of December 31, 2016. Total 2017 commercial loan and lease portfolio net charge-offs of \$35 million decreased from \$46 million in 2016, largely reflecting higher recovery levels.

Total commercial criticized loans and leases of \$2.8 billion, or 5.4% of total loans and leases as of December 31, 2017 decreased from \$2.9 billion, or 5.6%, at December 31, 2016. Commercial criticized balances of \$2.1 billion, or 5.7% of commercial loans, as of December 31, 2017, decreased from \$2.3 billion, or 6.1%, as of December 31, 2016, largely driven by commodities-related credits. Commercial real estate criticized balances of \$602 million, or 5.3% of the commercial real estate portfolio, increased from \$478 million, or 4.5%, as of December 31, 2016, driven by multi-family and office property types. Commercial criticized loans represented 75% of total criticized loans as of December 31, 2017 compared to 78% as of December 31, 2016. Commercial real estate accounted for 21% of total criticized loans as of December 31, 2017 compared to 16% as of December 31, 2016.

### *Retail Loan Asset Quality*

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

The credit composition of our retail loan portfolio at December 31, 2017 reflected an average refreshed FICO score of 762, which was slightly improved compared to December 31, 2016. The real estate secured portfolio CLTV ratio is calculated as the mortgage and second lien loan balance divided by the most recently available value of the property, and was 59% as of December 31, 2017 and 62% as of December 31, 2016. Retail asset quality continued to improve with a net charge-off rate of 0.47% for the year ended December 31, 2017, a decrease of six basis points from the year ended December 31, 2016, driven by improving asset quality and shift in portfolio mix.

### *HELOC Payment Shock*

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

As of December 31, 2017, for the \$1.7 billion of our HELOC portfolio that reached the end of the interest-only draw period and entered repayment of principal and interest during 2014 and 2015, 94% of the balances had been refinanced, paid off or were current on payments, 3% were past due and 3% had been charged off. As of December 31, 2017, for the \$738 million of our HELOC portfolio that reached the end of the interest-only draw period and entered repayment of principal and interest in 2016, 95% of the balances had been refinanced, paid off or were current on payments, 3% were past due and 2% had been charged off. As of December 31, 2017, for the \$730 million of our HELOC portfolio that reached the end of the interest-only draw period and entered repayment of principal and interest in 2017, 94% of the balances had been refinanced, paid off or were current on payments, 5% were past due and 1% had been charged off.

As of December 31, 2017, a total of \$1.0 billion of HELOC balances were scheduled to reach the end of the interest-only draw period and enter repayment of principal and interest in 2018. For the \$3.2 billion HELOC portfolio scheduled to reach the end of the interest-only draw period and enter repayment of principal and interest between

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January 1, 2018 and December 31, 2021, 49% was secured by a first lien, with a weighted-average FICO score of the borrowers of 763 and a LTV ratio of 56%. These results compare to the total HELOC portfolio of \$13.6 billion that was 51% secured by a first lien, with a weighted-average FICO score of the borrowers of 768 and a LTV ratio of 58%. 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 December 31, 2017, \$761 million of retail loans were classified as TDRs, compared with \$799 million as of December 31, 2016. The decrease was in part, attributable to a fourth quarter 2017 TDR loan sale of \$78 million. As of December 31, 2017, \$211 million of retail TDRs were in nonaccrual status with 51% current with payments, an improvement compared to \$233 million in nonaccrual status with 55% current on payments at December 31, 2016. TDRs generally return to accrual status once repayment capacity and appropriate payment history can be established. TDRs are individually evaluated for impairment and loans, once classified as TDRs, remain classified as TDRs until paid off, sold or refinanced at market terms.

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 our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

The following tables present an aging of our retail TDRs:

(in millions)	December 31, 2017				Total
	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	
<b>Recorded Investment:</b>					
Residential mortgages	\$88	\$17	\$5	\$41	\$151
Home equity loans	95	7	2	17	121
Home equity lines of credit	158	11	3	25	197
Home equity loans serviced by others	45	3	1	2	51
Home equity lines of credit serviced by others	8	—	—	1	9
Automobile	19	2	1	1	23
Education	163	5	3	4	175
Credit cards	22	1	1	1	25
Other retail	9	—	—	—	9
<b>Total</b>	<b>\$607</b>	<b>\$46</b>	<b>\$16</b>	<b>\$92</b>	<b>\$761</b>

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

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

(in millions)	December 31, 2017		
	Accruing	Nonaccruing	Total
<b>Recorded Investment:</b>			
Residential mortgages	\$98	\$53	\$151
Home equity loans	86	35	121
Home equity lines of credit	128	69	197
Home equity loans serviced by others	38	13	51
Home equity lines of credit serviced by others	4	5	9
Automobile	12	11	23
Education	152	23	175
Credit cards	24	1	25
Other retail	8	1	9
<b>Total</b>	<b>\$550</b>	<b>\$211</b>	<b>\$761</b>

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

*Impact of Nonperforming Loans and Leases on Interest Income*

The following table presents the gross interest income for both nonaccrual and restructured loans that would have been recognized if those loans had been current in accordance with their original contractual terms, and had been outstanding throughout the year, or since origination if held for only part of the year. The table also presents the interest income related to these loans that was actually recognized for the year.



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(in millions)	For the Year Ended December 31, 2017
Gross amount of interest income that would have been recorded <sup>(1)</sup>	\$121
Interest income actually recognized	7
<b>Total interest income foregone</b>	<b>\$114</b>

(1) Based on the contractual rate that was being charged at the time the loan was restructured or placed on nonaccrual status.

*Cross-Border Outstandings*

Cross-border outstandings can include loans, receivables, interest-bearing deposits with other banks, other interest-bearing investments and other monetary assets that are denominated in either dollars or other non-local currency.

As of December 31, 2017, 2016 and 2015, there were no aggregate cross-border outstandings from borrowers or counterparties in any country that exceeded 1%, or were between 0.75% and 1% of consolidated total assets.

**Derivatives**

In the normal course of business, we enter into a variety of derivative transactions in order to meet the financing needs of our customers, and to reduce our exposure to fluctuations in interest rates and foreign currency exchange rates. These transactions include interest rate swap contracts, interest rate options, foreign exchange contracts, residential loan commitment rate locks, forward sale contracts and purchase options. The assets and liabilities for derivatives on the Consolidated Balance Sheets reflect the market value of these transactions. We designate certain derivatives as hedging instruments in a qualifying hedge accounting relationship (fair value or cash flow hedge). Our remaining derivatives consist of economic hedges that do not qualify for hedge accounting and derivatives held for customer accommodation trading, or other purposes. We monitor the results of each transaction to ensure that management's intent is satisfied. We do not use derivatives for speculative purposes. For additional information regarding our derivative instruments, see Note 13 "Derivatives" in our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

The table below presents our derivative assets and liabilities.

(in millions)	December 31, 2017			December 31, 2016		
	Notional Amount <sup>(1)</sup>	Derivative Assets <sup>(2)</sup>	Derivative Liabilities <sup>(2)</sup>	Notional Amount <sup>(1)</sup>	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate contracts	\$13,300	\$—	\$—	\$13,350	\$52	\$193
Derivatives not designated as hedging instruments:						
Interest rate contracts	80,180	538	379	54,656	557	452
Foreign exchange contracts	9,882	148	149	8,039	134	126
Other contracts	1,039	7	5	1,498	16	7
<b>Total derivatives not designated as hedging instruments</b>		<b>693</b>	<b>533</b>		<b>707</b>	<b>585</b>
Gross derivative fair values		693	533		759	778
Less: Gross amounts offset in the Consolidated Balance Sheets <sup>(3)</sup>		(72)	(72)		(106)	(106)
Less: Cash collateral applied <sup>(3)</sup>		(4)	(151)		(26)	(13)
<b>Total net derivative fair values presented in the Consolidated Balance Sheets</b>		<b>\$617</b>	<b>\$310</b>		<b>\$627</b>	<b>\$659</b>

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

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

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

At December 31, 2017, the total derivative net asset value decreased \$10 million and the total net liability value decreased by \$349 million from December 31, 2016 driven by a change in the presentation of variation margin payments in the Consolidated Balance Sheets in 2017. Effective January 3, 2017, variation margin payments made on certain centrally-cleared derivative contracts were classified as settlement of those derivatives rather than the

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

posting of collateral. As a result of this change, on a prospective basis we modified our balance sheet presentation of certain interest rate swaps in 2017, such that the fair value of the swaps and the associated variation margin balances are reported as a single unit of account in derivative assets and/or derivative liabilities. At December 31, 2016, these variation margin balances were characterized as collateral. Variation margin balances characterized as collateral are reported in interest-bearing cash and due from banks on the Consolidated Balance Sheets.

**Derivatives designated as hedging instruments**

We use interest rate swap contracts to manage the interest rate exposure to variability in the interest cash flows on our floating rate assets and floating rate wholesale funding, and to hedge market risk on fixed rate capital markets debt issuances. The table below summarizes the related hedging activities.

(dollars in millions)	December 31, 2017					December 31, 2016				
	Notional Value	Avg Maturity (Yrs)	Float Index	Rate Range	Fixed Leg	Notional Value	Avg Maturity (Yrs)	Float Index	Rate Range	Fixed Leg
<b>Receive-fixed:</b>										
Cash flow - floating rate commercial loans (1)	\$7,600	2.98	1mL	(0.92% - 1.87%)		\$6,350	4.65	1mL	(0.88% - 1.84%)	
Fair value - senior debt issuance (2)	5,200	2.36	3mL	(1.06% - 1.92%)		4,000	2.59	3mL	(1.06% - 1.66%)	
<b>Total receive-fixed</b>	<b>12,800</b>					<b>10,350</b>				
<b>Pay-fixed:</b>										
Cash flow - floating rate wholesale funding (3)	500	1.01	1mL	1.32%		3,000	2.82	1mL	(0.91% - 1.98%)	
<b>Total pay-fixed</b>	<b>500</b>					<b>3,000</b>				
<b>Total</b>	<b>\$13,300</b>					<b>\$13,350</b>				

(1) We use receive-fixed swaps to minimize the exposure to variability in the interest cash flows on our floating rate assets.

(2) We use receive-fixed swaps to hedge market risk on fixed rate capital markets debt issuances.

(3) We use pay-fixed swaps to hedge floating rate wholesale funding.

During 2017, we increased our hedge position related to our floating rate commercial loans through the net addition of \$1.3 billion in receive-fixed swaps to limit our exposure to declining interest rates. An additional \$1.2 billion in receive-fixed swap were entered into during the year related to the fixed rate senior term debt issued. This further reduced our exposure to declining interest rates. We also reduced our position by a net \$2.5 billion in pay-fixed swaps during the year related to our floating rate wholesale funding activities.

**Derivatives not designated as hedging instruments**

We enter into derivative contracts (including foreign exchange contracts and interest rate contracts) for the benefit of commercial customers and other business purposes. We economically hedge significant exposures related to these free-standing derivatives by entering into offsetting third-party contracts with approved, reputable and independent counterparties with substantially matching terms and currencies. Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. Our exposure is limited to the replacement value of the contracts rather than the notional, principal or contract amounts. Credit risk is minimized through credit approvals, limits, counterparty collateral and monitoring procedures. We also uses forward commitments to sell TBAs and other commitments to sell residential mortgage loans at specified prices to economically hedge the interest rate risk in its residential mortgage loan activities, including residential loan commitment rate locks.

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**Deposits**

The table below presents the major components of our deposits:

(in millions)	December 31,			
	2017	2016	Change	Percent
Demand	\$29,279	\$28,472	\$807	3%
Checking with interest	22,229	20,714	1,515	7
Regular savings	9,518	8,964	554	6
Money market accounts	37,454	38,176	(722)	(2)
Term deposits	16,609	13,478	3,131	23
<b>Total deposits</b>	<b>\$115,089</b>	<b>\$109,804</b>	<b>\$5,285</b>	<b>5%</b>

Total deposits as of December 31, 2017, increased \$5.3 billion, or 5% to \$115.1 billion compared to \$109.8 billion and reflected particular strength in term deposits, checking with interest, demand deposits and regular savings products.

The following table presents the average balances and average interest rates paid for deposits.

(dollars in millions)	For the Year Ended December 31,					
	2017		2016		2015	
	Average Balances	Yields/ Rates	Average Balances	Yields/ Rates	Average Balances	Yields/ Rates
Noninterest-bearing demand deposits <sup>(1)</sup>	\$28,134	—	\$27,634	—	\$26,606	—
Checking with interest	\$21,458	0.37%	\$19,320	0.18%	\$16,666	0.11%
Money market accounts	37,450	0.53	37,106	0.36	35,401	0.32
Regular savings	9,384	0.04	8,691	0.04	8,057	0.03
Term deposits	15,448	1.04	12,696	0.78	12,424	0.82
<b>Total interest-bearing deposits <sup>(1)</sup></b>	<b>\$83,740</b>	<b>0.53%</b>	<b>\$77,813</b>	<b>0.35%</b>	<b>\$72,548</b>	<b>0.33%</b>

<sup>(1)</sup> The aggregate amount of deposits by foreign depositors in domestic offices was \$1.0 billion, \$1.4 billion and \$1.1 billion as of December 31, 2017, 2016 and 2015.

**Borrowed Funds**

*Short-term borrowed funds*

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

(in millions)	December 31,			
	2017	2016	Change	Percent
Federal funds purchased	\$460	\$533	(\$73)	(14%)
Securities sold under agreements to repurchase	355	615	(260)	(42)
Other short-term borrowed funds	1,856	3,211	(1,355)	(42)
<b>Total short-term borrowed funds</b>	<b>\$2,671</b>	<b>\$4,359</b>	<b>(\$1,688)</b>	<b>(39%)</b>

Short-term borrowed funds of \$2.7 billion as of December 31, 2017, decreased \$1.7 billion from December 31, 2016. The decrease resulted from a reduction of \$1.4 billion in short-term FHLB advances included in other short-term borrowed funds and a \$260 million decrease in customer repurchase agreements.

Our advances, lines of credit, and letters of credit from the FHLB are collateralized by pledged mortgages and pledged securities at least sufficient to satisfy the collateral maintenance level established by the FHLB. The utilized borrowing capacity for FHLB advances and letters of credit was \$9.4 billion and \$13.4 billion at December 31, 2017 and 2016, respectively. Our available FHLB borrowing capacity was \$8.0 billion and \$2.8 billion at December 31, 2017 and 2016, respectively. We can also borrow from the FRB discount window to meet short-term liquidity requirements. Collateral, such as investment securities and loans, is pledged to provide borrowing capacity at the FRB. At December 31, 2017, our unused secured borrowing capacity was approximately \$41.2 billion, which included unencumbered securities, FHLB borrowing capacity, and FRB discount window capacity.

# CITIZENS FINANCIAL GROUP, INC.

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

(in millions, except ratio data)	As of and for the Year Ended December 31,		
	2017	2016	2015
<b>Weighted-average interest rate at year-end: <sup>(1)</sup></b>			
Federal funds purchased and securities sold under agreements to repurchase	0.74%	0.26%	0.15%
Other short-term borrowed funds	1.72	0.94	0.44
<b>Maximum amount outstanding at month-end during the year:</b>			
Federal funds purchased and securities sold under agreements to repurchase <sup>(2)</sup>	\$1,174	\$1,522	\$5,375
Other short-term borrowed funds	3,508	5,461	7,004
<b>Average amount outstanding during the year:</b>			
Federal funds purchased and securities sold under agreements to repurchase <sup>(2)</sup>	\$776	\$947	\$3,364
Other short-term borrowed funds	2,321	3,207	5,865
<b>Weighted-average interest rate during the year: <sup>(1)</sup></b>			
Federal funds purchased and securities sold under agreements to repurchase	0.36%	0.09%	0.22%
Other short-term borrowed funds	1.32	0.64	0.28

<sup>(1)</sup> Rates exclude certain hedging costs.

<sup>(2)</sup> 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)	December 31,	
	2017	2016
<b>Parent Company:</b>		
2.375% fixed-rate senior unsecured debt, due 2021	\$349	\$348
4.150% fixed-rate subordinated debt, due 2022	348	347
5.158% fixed-to-floating rate subordinated debt, due 2023, converting to floating at 3-month LIBOR + 3.56% and callable beginning June 2018	333	333
3.750% fixed-rate subordinated debt, due 2024	250	250
4.023% fixed-rate subordinated debt, due 2024	42	42
4.350% fixed-rate subordinated debt, due 2025	249	249
4.300% fixed-rate subordinated debt, due 2025	749	749
<b>Banking Subsidiaries:</b>		
2.300% senior unsecured notes, due 2018 <sup>(1)</sup> <sup>(2)</sup>	—	745
2.450% senior unsecured notes, due 2019 <sup>(1)</sup>	743	747
2.500% senior unsecured notes, due 2019 <sup>(1)</sup>	741	741
2.250% senior unsecured notes, due 2020 <sup>(1)</sup>	692	—
Floating-rate senior unsecured notes, due 2020 <sup>(1)</sup>	299	—
Floating-rate senior unsecured notes, due 2020 <sup>(1)</sup>	249	—
2.200% senior unsecured notes, due 2020 <sup>(1)</sup>	498	—
2.250% senior unsecured notes, due 2020 <sup>(1)</sup>	742	—
2.550% senior unsecured notes, due 2021 <sup>(1)</sup>	964	965
Floating-rate senior unsecured notes, due 2022 <sup>(1)</sup>	249	—
2.650% senior unsecured notes, due 2022 <sup>(1)</sup>	491	—
Federal Home Loan advances due through 2033	3,761	7,264
Other	16	10
<b>Total long-term borrowed funds</b>	<b>\$11,765</b>	<b>\$12,790</b>

<sup>(1)</sup> Issued under CBNA's Global Bank Note Program.

<sup>(2)</sup> Reclassified to short-term borrowed funds.

The Parent Company's long-term borrowed funds as of December 31, 2017 and 2016 included principal balances of \$2.3 billion and unamortized deferred issuance costs and/or discounts of (\$5) million and (\$7) million, respectively. The banking subsidiaries' long-term borrowed funds as of December 31, 2017 and 2016 include principal balances of \$9.5 billion and \$10.5 billion, respectively, with unamortized deferred issuance costs and/or discounts



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of (\$19) million and (\$12) million , respectively, and hedging basis adjustments of (\$63) million and (\$40) million , respectively. See Note 13 "Derivatives" for further information about our hedging of certain long-term borrowed funds.

From an external issuance perspective, on February 24, 2017, we increased the size of CBNA's Global Note Program from \$5.0 billion to \$8.0 billion. On March 2, 2017, CBNA issued \$1.0 billion in three-year, senior bank debt, composed of \$700 million in fixed-rate notes and \$300 million in floating-rate notes indexed to 3-month LIBOR. On May 26, 2017, CBNA issued \$1.5 billion in senior notes, consisting of \$500 million of three-year fixed-rate notes, \$250 million of three-year floating-rate notes, \$500 million in five-year fixed-rate notes, and \$250 million in five-year floating-rate notes. We also established a \$500 million fair value hedge using a receive-fixed interest rate swap against the \$500 million five-year fixed-rate senior debt, related to CBNA's \$1.5 billion senior note issuance in May 2017. On November 1, 2017, CBNA issued \$750 million in three-year, fixed-rate, senior bank debt.

Long-term borrowed funds of \$11.8 billion as of December 31, 2017 decreased \$1.0 billion from December 31, 2016 , reflecting a \$2.5 billion increase in senior bank debt, offset by a decrease of \$3.5 billion in long-term FHLB borrowings and a reclassification of \$750 million in senior bank debt to short-term borrowings. Access to additional funding through repurchase agreements, collateralized borrowed funds or asset sales continues to be available. Additionally, capacity remains to grow deposits or issue senior or subordinated notes.

# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### QUARTERLY RESULTS OF OPERATIONS

The following table presents unaudited quarterly Consolidated Statements of Operations data and Consolidated Balance Sheet data as of and for the four quarters of 2017 and 2016, respectively. We have prepared the Consolidated Statement of Operations data and Balance Sheet data on the same basis as our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report and, in the opinion of management, each Consolidated Statement of Operations and Balance Sheet includes all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the results of operations and balance sheet data as of and for these periods. This information should be read in conjunction with our audited Consolidated Financial Statements and the related notes, included in this report.

#### Supplementary Summary Consolidated Financial and Other Data (unaudited)

(dollars in millions, except per share amounts)	For the Three Months Ended							
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
<b>Operating Data:</b>								
Net interest income	\$1,080	\$1,062	\$1,026	\$1,005	\$986	\$945	\$923	\$904
Noninterest income (1) (6) (10)	404	381	370	379	377	435	355	330
Total revenue	1,484	1,443	1,396	1,384	1,363	1,380	1,278	1,234
Provision for credit losses	83	72	70	96	102	86	90	91
Noninterest expense (2) (7) (11)	898	858	864	854	847	867	827	811
Income before income tax expense (benefit)	503	513	462	434	414	427	361	332
Income tax (benefit) expense (3) (8)	(163)	165	144	114	132	130	118	109
Net income (4) (8) (12)	\$666	\$348	\$318	\$320	\$282	\$297	\$243	\$223
Net income available to common stockholders (4) (8) (12)	\$666	\$341	\$318	\$313	\$282	\$290	\$243	\$216
Net income per average common share- basic (5) (9) (13)	\$1.35	\$0.68	\$0.63	\$0.61	\$0.55	\$0.56	\$0.46	\$0.41
Net income per average common share- diluted (5) (9) (13)	1.35	0.68	0.63	0.61	0.55	0.56	0.46	0.41
<b>Other Operating Data:</b>								
Return on average common equity (14)	13.46%	6.87%	6.48%	6.52%	5.70%	5.82%	4.94%	4.45%
Return on average tangible common equity (14)	19.92	10.13	9.57	9.68	8.43	8.58	7.30	6.61
Return on average total assets (14)	1.75	0.92	0.85	0.87	0.76	0.82	0.69	0.65
Return on average total tangible assets (14)	1.83	0.96	0.89	0.91	0.79	0.86	0.72	0.68
Efficiency ratio (14)	60.52	59.41	61.94	61.68	62.18	62.88	64.71	65.66
Net interest margin (14)	3.08	3.05	2.97	2.96	2.90	2.84	2.84	2.86
<b>Stock Activity:</b>								
<b>Share Price:</b>								
High	\$42.93	\$38.06	\$38.01	\$39.75	\$36.56	\$25.11	\$24.24	\$25.99
Low	36.10	31.51	33.13	32.99	24.22	18.58	18.34	18.04
<b>Share Data:</b>								
Cash dividends declared and paid per common share	\$0.18	\$0.18	\$0.14	\$0.14	\$0.12	\$0.12	\$0.12	\$0.10
Dividend payout ratio	13%	26%	22%	23%	22%	22%	26%	24%

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(dollars in millions)	As of							
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
<b>Balance Sheet Data:</b>								
Total assets	\$152,336	\$151,356	\$151,407	\$150,285	\$149,520	\$147,015	\$145,183	\$140,077
Loans and leases (15)	110,617	110,151	109,046	108,111	107,669	105,467	103,551	100,991
Allowance for loan and lease losses	1,236	1,224	1,219	1,224	1,236	1,240	1,246	1,224
Total securities	25,733	25,742	25,115	25,996	25,610	25,704	24,398	24,057
Goodwill	6,887	6,887	6,887	6,876	6,876	6,876	6,876	6,876
Total liabilities	132,066	131,247	131,343	130,438	129,773	126,834	124,957	120,112
Deposits	115,089	113,235	113,613	112,112	109,804	108,327	106,257	102,606
Federal funds purchased and securities sold under agreements to repurchase	815	453	429	1,093	1,148	900	717	714
Other short-term borrowed funds	1,856	1,505	2,004	2,762	3,211	2,512	2,770	3,300
Long-term borrowed funds	11,765	13,400	13,154	11,780	12,790	11,902	11,810	10,035
Total stockholders' equity	20,270	20,109	20,064	19,847	19,747	20,181	20,226	19,965
<b>Other Balance Sheet Data:</b>								
<b>Asset Quality Ratios:</b>								
Allowance for loan and lease losses as a percentage of total loans and leases	1.12%	1.11%	1.12%	1.13%	1.15%	1.18%	1.20%	1.21%
Allowance for loan and lease losses as a percentage of nonperforming loans and leases	142	131	119	117	118	112	119	113
Nonperforming loans and leases as a percentage of total loans and leases	0.79	0.85	0.94	0.97	0.97	1.05	1.01	1.07
<b>Capital ratios: (16)</b>								
CET1 capital ratio (17)	11.2	11.1	11.2	11.2	11.2	11.3	11.5	11.6
Tier 1 capital ratio (18)	11.4	11.3	11.4	11.4	11.4	11.5	11.7	11.9
Total capital ratio (19)	13.9	13.8	14.0	14.0	14.0	14.2	14.9	15.1
Tier 1 leverage ratio (20)	10.0	9.9	9.9	9.9	9.9	10.1	10.3	10.4

(1) Fourth quarter 2017 noninterest income included \$17 million of pre-tax notable items related to a gain on mortgage/home equity TDR Transaction.

(2) Fourth quarter 2017 noninterest expense included \$40 million of pre-tax notable items consisting of \$22 million of 2017 Tax Legislation-related notable items (colleague and community investment) and \$18 million related to other notable items (\$15 million in TOP efficiency initiatives and \$3 million of home equity operational items).

(3) Fourth quarter 2017 income tax expense included \$340 million of notable items driven by the 2017 Tax Legislation of \$331 million of net deferred tax liability adjustment and \$9 million of tax benefit related to colleague and community investment.

(4) Fourth quarter 2017 net income included \$317 million of after-tax notable items consisting of a \$318 million benefit related the December 2017 Tax Legislation (\$331 million of net deferred tax liability adjustment partially offset by \$13 million of after-tax colleague and community investment), \$10 million of after-tax gain on mortgage/home equity TDR Transaction offset by \$11 million of after-tax other notable items (\$9 million in after-tax TOP efficiency initiatives and \$2 million of after-tax home equity operational items).

(5) Fourth quarter 2017 net income per average common share, basic and diluted, included \$0.64 related to notable items, primarily driven by the 2017 Tax Legislation.

(6) Second quarter 2017 noninterest income included \$11 million of lease impairment credit-related costs.

(7) Second quarter 2017 noninterest expense included \$15 million of lease impairment credit-related costs.

(8) First quarter 2017 income tax expense and net income included \$23 million benefit related to the settlement of certain tax matters.

(9) First quarter 2017 net income per average common share, basic and diluted, included \$0.04 benefit related to the settlement of certain tax matters.

(10) Third quarter 2016 noninterest income included \$67 million of pre-tax notable items consisting of a \$72 million gain on mortgage/home equity TDR Transaction, partially offset by \$5 million related to asset finance repositioning.

(11) Third quarter 2016 noninterest expense included \$36 million of pre-tax notable items consisting of \$17 million of TOP efficiency initiatives, \$11 million related to asset finance repositioning and \$8 million of home equity operational items.

(12) Third quarter 2016 net income included \$19 million of after-tax notable items consisting of a \$45 million gain on mortgage/home equity TDR Transaction, partially offset by \$11 million of TOP efficiency initiatives, \$10 million related to asset finance repositioning and \$5 million of home equity operational items.

(13) Third quarter 2016 net income per average common share, basic and diluted, included \$0.04 related to notable items consisting of \$0.09 attributable to the gain on mortgage/home equity TDR Transaction, partially offset by a \$0.02 impact from TOP efficiency initiatives, \$0.02 impact related to asset finance repositioning and a \$0.01 impact from home equity operational items.

(14) Ratios for the periods above are presented on an annualized basis.

(15) Excludes loans held for sale of \$718 million, \$1,224 million, \$707 million, \$669 million, \$625 million, \$526 million, \$850 million, and \$751 million as of December 31, 2017, September 30, 2017, June 30, 2017, March 31, 2017, December 31, 2016, September 30, 2016, June 30, 2016 and March 31, 2016, respectively.

(16) Basel III transitional rules for institutions applying the Standardized approach to calculating risk-weighted assets became effective January 1, 2015. The capital ratios and associated components are prepared using the U.S. Basel III Standardized transitional approach. The December 31, 2017 capital ratios reflect the retrospective adoption of FASB ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. See "—Results of Operations — 2017 compared with 2016 — Income Tax Expense" for additional information.

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

(18) "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.

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

(20) "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

### CAPITAL AND REGULATORY MATTERS

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

On December 22, 2017, President Trump signed the 2017 Tax Legislation which included a reduction in the corporate tax rate from 35% to 21%. For Citizens, this required a revaluation of our net deferred tax liability with a corresponding adjustment to current tax expense, and resulted in a \$331 million net tax benefit. Included in this net tax benefit was \$145 million of expense related to the revaluation of our deferred tax assets associated with unrealized losses in AOCI. FASB standards in-place at December 31, 2017 required us to revalue all deferred taxes, including those related to balances in AOCI, through current tax expense. As a result, our unrealized loss balance in AOCI was not revalued to reflect the new corporate tax rate. This impact, commonly referred to as the "stranded tax effect", was taken under consideration by FASB in January 2018 to address concerns primarily raised by banking institutions, including distortion of net income and regulatory capital. In February 2018, to address the "stranded tax effect", FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which provides entities the election to reclassify the difference between the new and old corporate tax rates resulting from the 2017 Tax Legislation between retained earnings and AOCI for fiscal years beginning after December 15, 2018, with early adoption permitted. We have retrospectively adopted ASU 2018-02, elected to reclassify \$145 million between AOCI and retained earnings, including indirect impacts from the decreased federal tax effect on future state tax benefits, and reflected this reclassification in our 2017 Consolidated Financial Statements, included in this report.

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

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

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

# 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 banking 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 transition provisions 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 DTAs, mortgage servicing assets, investments in non-consolidated financial entities and minority interests. As a result, effective January 1, 2018, our mortgage servicing assets will 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, investments in non-consolidated financial entities and minority interests.

The U.S. Basel III rules also impose a CCB on top of the following three minimum risk-weighted asset ratios: CET1 capital of 4.5%, tier 1 capital of 6.0% and total capital of 8.0%. The implementation of the CCB began on January 1, 2016 at the 0.625% level and increases by 0.625% on each subsequent January 1, until the buffer reaches its fully phased-in level of 2.5% on January 1, 2019. As such, the CCB for 2017 increased to 1.250% on January 1, 2017. Banking institutions for which any risk-weighted asset ratio falls below its effective minimum (required minimum ratios plus the applicable CCB) will be subject to constraints on capital distributions, including dividends, share repurchases and certain discretionary executive compensation. The severity of the constraints depends on the amount of the shortfall.

The table below presents our actual regulatory capital ratios under the U.S. Basel III Standardized Transitional rules as well as pro forma U.S. Basel III Standardized ratios after full phase-in of all requirements by January 1, 2018 as stated in the U.S. Basel III Standardized rules.

	Transitional Basel III				Pro Forma Basel III Assuming Full Phase-in		
	Actual Amount	Actual Ratio	Required Minimum plus Required CCB for Non-Leverage Ratios (6)(7)	FDIA Required Well-Capitalized Minimum for Purposes of Prompt Corrective Action (9)	Actual Ratio (1)	Required Minimum plus Required CCB for Non-Leverage Ratios (6)(8)	FDIA Required Well-Capitalized Minimum for Purposes of Prompt Corrective Action (9)
<b>December 31, 2017</b>							
Common equity tier 1 capital (2)	\$14,309	11.2%	5.8%	6.5%	11.2%	7.0%	6.5%
Tier 1 capital (3)	14,556	11.4	7.3	8.0	11.4	8.5	8.0
Total capital (4)	17,781	13.9	9.3	10.0	13.9	10.5	10.0
Tier 1 leverage (5)	14,556	10.0	4.0	5.0	10.0	4.0	5.0
Risk-weighted assets	127,692						
Quarterly adjusted average assets	145,601						
<b>December 31, 2016</b>							
Common equity tier 1 capital (2)	\$13,822	11.2%	5.1%	6.5%	11.1%	7.0%	6.5%
Tier 1 capital (3)	14,069	11.4	6.6	8.0	11.3	8.5	8.0
Total capital (4)	17,347	14.0	8.6	10.0	14.0	10.5	10.0
Tier 1 leverage (5)	14,069	9.9	4.0	5.0	9.9	4.0	5.0
Risk-weighted assets	123,857						
Quarterly adjusted average assets	141,677						

(1) Fully phased-in regulatory capital ratios are Key Performance Metrics. For more information on Key Performance Metrics, see "—Introduction — Key Performance Metrics Used By Management and Non-GAAP Financial Measures."

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

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

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

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

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

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

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

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

# CITIZENS FINANCIAL GROUP, INC.

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At December 31, 2017, our CET1 capital, tier 1 capital and total capital ratios were 11.2%, 11.4% and 13.9%, respectively, as compared with 11.2%, 11.4% and 14.0%, respectively, as of December 31, 2016. The CET1 and tier 1 capital ratios remained flat as net income of \$1.7 billion, including the effect of the 2017 Tax Legislation of \$331 million, was largely offset by risk-weighted asset growth and our Capital Plan actions over the period, which included common dividends of \$322 million, preferred dividends of \$14 million and the repurchase of \$820 million of our outstanding common stock. The total capital ratio slightly decreased as a result of the CET1 capital ratio and tier 1 capital ratio movement, in addition to a decrease of \$70 million for non-qualifying tier 2 subordinated debt. Under U.S. Basel III Standardized rules, tier 2 capital instrument eligibility is phased out by 20% per year, beginning five years from the applicable maturity date. At December 31, 2017, our CET1 capital, tier 1 capital and total capital ratios were approximately 420 basis points, 290 basis points and 340 basis points, respectively, above their regulatory minimums plus the fully phased-in capital conservation buffer. Based on both current and fully phased-in Basel III requirements, all ratios remained well above the U.S. Basel III minima.

### Standardized Approach

CFG, CBNA and CBPA calculate regulatory ratios using the U.S. Basel III Standardized approach, which prescribe many categories of assets, and depending on the nature of the assets, generally risk weight in a range from 0% for U.S. government and agency securities, to 600% for certain equity exposures. Under this approach no distinction is made for variations in credit quality for corporate exposures. Additionally, the economic benefit of collateral is restricted to a limited list of eligible securities and cash. At December 31, 2017, we estimate our CET1 capital, CET1 capital ratio and total risk-weighted assets using the U.S. Basel III Standardized approach, on a fully phased-in basis, to be \$14.3 billion, 11.2% and \$128.0 billion, respectively.

The following table provides a reconciliation of regulatory ratios and ratio components using the U.S. Basel III Standardized Transitional rules and U.S. Basel III Standardized estimates on a fully phased-in basis for common equity tier 1 capital, total capital and risk-weighted assets. This reconciliation applies the original transition provision effective January 1, 2015. Effective January 1, 2018, U.S. Basel III ratio definitions impacting risk weighted assets and qualifying U.S. Basel III capital will be fully phased-in per the final transition provision rule issued by banking regulators in November 2017.

(in millions, except ratio data)	December 31,	
	2017	2016
Common equity tier 1 capital	\$14,309	\$13,822
Impact of intangibles at 100%	—	—
Fully phased-in common equity tier 1 capital (1)	\$14,309	\$13,822
Total capital	\$17,781	\$17,347
Impact of intangibles at 100%	—	—
Fully phased-in total capital (1)	\$17,781	\$17,347
Risk-weighted assets	\$127,692	\$123,857
Impact of intangibles - 100% capital deduction	—	—
Impact of mortgage servicing assets at 250% risk weight	297	244
Fully phased-in risk-weighted assets (1)	\$127,989	\$124,101
Transitional common equity tier 1 capital ratio (2)	11.2%	11.2%
Fully phased-in common equity tier 1 capital ratio (1)(2)	11.2	11.1
Transitional total capital ratio (3)	13.9	14.0
Fully phased-in total capital ratio (1)(3)	13.9	14.0

(1) Fully phased-in regulatory capital ratios are Key Performance Metrics. For more information on Key Performance Metrics, see "—Introduction — Key Performance Metrics Used By Management and Non-GAAP Financial Measures."

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

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

### Regulatory Capital Ratios and Capital Composition

CET1 capital under U.S. Basel III Standardized Transitional rules totaled \$14.3 billion at December 31, 2017, and increased \$487 million from \$13.8 billion at December 31, 2016, as net income of \$1.7 billion, including the effect of the 2017 Tax Legislation of \$331 million, was largely offset by the impact of common share repurchases and dividend payments. Tier 1 capital at December 31, 2017 totaled \$14.6 billion, reflecting a \$487 million increase from \$14.1 billion at December 31, 2016, driven by the changes in CET1 capital noted above. At December 31, 2017 and 2016, we had \$247 million of 5.500% Fixed-to-Floating Non-Cumulative Perpetual Preferred Stock outstanding

# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

which qualified as additional tier 1 capital. Total capital of \$17.8 billion at December 31, 2017, increased \$434 million from December 31, 2016, as net income of \$1.7 billion, including the effect of the 2017 Tax Legislation of \$331 million, was largely offset by the impact of common share repurchases, dividend payments and a decrease of \$70 million for non-qualifying tier 2 subordinated debt. Under U.S. Basel III Standardized rules, tier 2 capital instrument eligibility is phased out by 20% per year, beginning five years from the applicable maturity date.

Risk-weighted assets ("RWA") totaled \$127.7 billion at December 31, 2017, based on U.S. Basel III Standardized Transitional rules, up \$3.8 billion from December 31, 2016. This increase was driven by growth in retail loans, including education, residential mortgages and unsecured personal loans as well as commercial real estate loans and unfunded commercial commitment RWA. Included within the commercial real estate loan RWA increase was approximately \$700 million tied to a change in the RWA designation for certain commercial real estate loans in first quarter 2017. These increases were partially offset by the RWA impact of run-off in the home equity and auto portfolios and a reduction in market risk, as we have not met the reporting threshold prescribed by Market Risk Capital Guidelines since the first quarter of 2017. The tier 1 leverage ratio of 10.0% at December 31, 2017 increased seven basis points from December 31, 2016, driven by a 34 basis point increase from higher CET1 capital as described above, largely offset by an increase of \$3.9 billion in total average consolidated assets that drove a 27 basis point decline in the ratio.

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

(in millions)	Transitional Basel III	
	December 31,	
	2017	2016
Total common stockholders' equity	\$20,023	\$19,499
<b>Exclusions (1):</b>		
Net unrealized losses recorded in accumulated other comprehensive income, net of tax:		
Debt and marketable equity securities	236	186
Derivatives	143	88
Unamortized net periodic benefit costs	441	394
<b>Deductions:</b>		
Goodwill	(6,887)	(6,876)
Deferred tax liability associated with goodwill	355	532
Other intangible assets	(2)	(1)
<b>Total common equity tier 1 capital</b>	<b>14,309</b>	<b>13,822</b>
Qualifying preferred stock	247	247
<b>Total tier 1 capital</b>	<b>14,556</b>	<b>14,069</b>
Qualifying subordinated debt (2)	1,901	1,970
Allowance for loan and lease losses	1,236	1,236
Allowance for credit losses for off-balance sheet exposure	88	72
<b>Total capital</b>	<b>\$17,781</b>	<b>\$17,347</b>

(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 December 31, 2017, the amount of non-qualifying subordinated debt excluded from regulatory capital was \$70 million.

### **Capital Adequacy Process**

Our assessment of capital adequacy begins with our risk appetite and risk management framework. This framework provides for the identification, measurement and management of material risks. Capital requirements are determined for actual and forecasted risk portfolios using applicable regulatory capital methodologies. The assessment also considers the possible impacts of approved and proposed regulatory changes to future periods. Key analytical frameworks, which enable the assessment of capital adequacy versus unexpected loss, supplement our base case forecast. These supplemental frameworks include stress testing, as well as an internal capital adequacy requirement that builds on internally assessed economic capital requirements. A robust governance framework supports our capital planning process. This process includes capital management policies and procedures that document capital adequacy metrics and limits, as well as our comprehensive capital contingency plan and the active engagement of both the legal-entity boards and senior management in oversight and decision-making.

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Forward-looking assessments of capital adequacy for us and our banking subsidiaries feed development of capital plans that are submitted to the FRB and bank regulators. We prepare these plans in compliance with the FRB's Capital Plan Rule and participate annually in the FRB's CCAR review process. In addition to the stress test requirements under CCAR, we also perform semi-annual company-run stress tests required by the Dodd-Frank Act.

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

### Capital Transactions

- Declared and paid quarterly common stock dividends of \$0.14 per share for the first and second quarters of 2017, and \$0.18 per share for the third and fourth quarters of 2017, aggregating to common stock dividend payments of \$322 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 preferred stock dividend payments of \$7 million on April 6, 2017 and October 6, 2017; and
- Repurchased \$820 million of our outstanding common stock.

### Banking Subsidiaries' Capital

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

(in millions, except ratio data)	Transitional Basel III			
	December 31,			
	2017		2016	
	Amount	Ratio	Amount	Ratio
<b>Citizens Bank, National Association</b>				
Common equity tier 1 capital <sup>(1)</sup>	\$11,917	11.4%	\$11,248	11.2%
Tier 1 capital <sup>(2)</sup>	11,917	11.4	11,248	11.2
Total capital <sup>(3)</sup>	14,127	13.5	13,443	13.4
Tier 1 leverage <sup>(4)</sup>	11,917	10.3	11,248	10.3
Risk-weighted assets	104,767		100,491	
Quarterly adjusted average assets	115,291		109,530	
<b>Citizens Bank of Pennsylvania</b>				
Common equity tier 1 capital <sup>(1)</sup>	\$3,045	12.9%	\$3,094	12.7%
Tier 1 capital <sup>(2)</sup>	3,045	12.9	3,094	12.7
Total capital <sup>(3)</sup>	3,284	13.9	3,333	13.6
Tier 1 leverage <sup>(4)</sup>	3,045	8.7	3,094	8.8
Risk-weighted assets	23,659		24,426	
Quarterly adjusted average assets	34,821		35,057	

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

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

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

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

CBNA CET1 capital totaled \$11.9 billion at December 31, 2017, up \$669 million from \$11.2 billion at December 31, 2016 as net income of \$1.4 billion including the effect of the 2017 Tax Legislation of \$280 million was largely offset by dividend payments. At December 31, 2017, CBNA held minimal additional tier 1 capital. Total capital was \$14.1 billion at December 31, 2017, an increase of \$684 million from December 31, 2016, primarily driven by the increases in CET1 capital.

CBNA risk-weighted assets of \$104.8 billion at December 31, 2017 increased \$4.3 billion from December 31, 2016 driven by growth in retail loans including education, residential mortgages and unsecured personal loans as well as commercial real estate loans and unfunded commercial commitment RWA. Included within the commercial real estate loan RWA increase was approximately \$400 million tied to a change in the RWA designation for certain commercial real estate loans in first quarter 2017. These increases were partially offset by the RWA impact of run-

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off in the home equity and auto portfolios and a reduction in market risk, as CBNA has not met the reporting threshold prescribed by Market Risk Capital Guidelines in 2017.

The CBNA tier 1 leverage ratio of 10.3% at December 31, 2017 increased seven basis points from December 31, 2016, driven by a 59 basis point increase from higher CET1 capital as described above, largely offset by a \$5.8 billion increase in total average consolidated assets that drove a 52 basis point decline in the ratio.

CBPA CET1 capital totaled \$3.0 billion at December 31, 2017, and decreased \$49 million from \$3.1 billion at December 31, 2016 as dividend payments of \$285 million were largely offset by net income of \$328 million including the effect of the 2017 Tax Legislation of \$74 million. At December 31, 2017, there was no additional tier 1 capital. Total capital was \$3.3 billion at December 31, 2017, a decrease of \$49 million from December 31, 2016, driven by the decrease in CET1 capital as described above.

CBPA risk-weighted assets of \$23.7 billion at December 31, 2017 decreased \$767 million from December 31, 2016, driven by decreases in auto, commercial, residential mortgage and home equity RWA. These decreases were partially offset by growth in commercial real estate and education loan RWA. Included within the commercial real estate loan RWA increase was approximately \$300 million tied to a change of the RWA designation for certain commercial real estate loans in first quarter 2017.

The CBPA tier 1 leverage ratio of 8.7% at December 31, 2017 decreased eight basis points from December 31, 2016, driven by a 14 basis point decrease from lower CET1 capital as described above, offset by a \$236 million decrease in total average consolidated assets that drove a six basis point increase in the ratio.

### LIQUIDITY

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

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

#### ***Parent Company Liquidity***

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

During the years ended December 31, 2017 and 2016, the Parent Company paid dividends on common stock of \$322 million and \$241 million, respectively, and declared dividends on preferred stock of \$14 million for both periods. During the years ended December 31, 2017 and 2016, the Parent Company repurchased \$820 million and \$430 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 \$443 million as of December 31, 2017 compared with \$551 million as of December 31, 2016. The Parent Company's double-leverage ratio (the combined equity of Parent Company subsidiaries divided by Parent Company equity) is a measure of reliance on equity cash flows from subsidiaries. At December 31, 2017, the Parent Company's double-leverage ratio was 103%.

#### ***Banking Subsidiaries' Liquidity***

In the ordinary course of business, the liquidity of CBNA and CBPA is managed by matching sources and uses of cash. The primary sources of bank liquidity include (i) deposits from our consumer and commercial franchise customers; (ii) payments of principal and interest on loans and debt securities; and (iii) wholesale borrowings, as needed, and as described under "—Liquidity Risk Management and Governance." The primary uses of bank liquidity

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include (i) withdrawals and maturities of deposits; (ii) payment of interest on deposits; (iii) funding of loans and related commitments; and (iv) funding of securities purchases. To the extent that the banks have relied on wholesale borrowings, uses also include payments of related principal and interest.

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

From an external issuance perspective, on February 24, 2017, we increased the size of CBNA's Global Note Program from \$5.0 billion to \$8.0 billion. On March 2, 2017, CBNA issued \$1.0 billion in three-year senior notes, consisting of \$700 million in fixed-rate notes and \$300 million in floating-rate notes. On May 26, 2017, CBNA issued \$1.5 billion in senior notes, consisting of \$500 million of three-year fixed-rate notes, \$250 million of three-year floating-rate notes, \$500 million in five-year fixed-rate notes, and \$250 million in five-year floating-rate notes. On November 1, 2017, CBNA issued \$750 million in three-year senior notes.

### ***Liquidity Risk***

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

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

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

### ***Factors Affecting Liquidity***

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

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

**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:

	December 31, 2017		
	Moody’s	Standard and Poor’s	Fitch
<b>Citizens Financial Group, Inc.:</b>			
Long-term issuer	NR	BBB+	BBB+
Short-term issuer	NR	A-2	F2
Subordinated debt	NR	BBB	BBB
Preferred Stock	NR	BB+	BB-
<b>Citizens Bank, National Association</b>			
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
<b>Citizens Bank of Pennsylvania:</b>			
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 December 31, 2017, our wholesale funding consisted primarily of secured borrowings from the FHLBs collateralized by high-quality residential mortgages and term debt issued by the Parent Company and CBNA.

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

The LCR was developed to ensure banks have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. In September 2014, the U.S. federal banking regulators published the final rule to implement the LCR. This rule also introduced a modified version of the LCR in the 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 100% compliant beginning in January 2017. Achieving sustainable LCR compliance may require changes in the size and/or composition of our investment portfolio, the configuration of our discretionary wholesale funding portfolio, and our average cash position. We remain fully compliant with the LCR as of December 31, 2017.

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

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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 December 31, 2017 :

- Core deposits continued to be our primary source of funding and our consolidated year-end loan-to-deposit ratio was 96.7% ;
- Our cash position (which is defined as cash balance held at the FRB) totaled \$2.0 billion ;
- Contingent liquidity was \$30.3 billion , consisting of unencumbered high-quality liquid assets of \$20.3 billion , unused FHLB capacity of \$8.0 billion , and our cash position (defined above) of \$2.0 billion . Asset liquidity (a component of contingent liquidity) was \$22.3 billion , consisting of our cash position of \$2.0 billion and unencumbered high-quality and liquid securities of \$20.3 billion ; and
- Available discount window capacity, defined as available total borrowing capacity from the FRB based on identified collateral, is secured by non-mortgage commercial and retail loans and totaled \$12.9 billion . Use of this borrowing capacity would likely be considered only during exigent circumstances.

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

- Current liquidity sources and capacities, including cash at the FRBs, free and liquid securities and available and secured FHLB borrowing capacity;
- Liquidity stress sources, including idiosyncratic, systemic and combined stresses, in addition to evolving regulatory requirements such as the LCR and the NSFR; and
- Current and prospective exposures, including secured and unsecured wholesale funding and spot and cumulative cash-flow gaps across a variety of horizons.

Further, certain of these metrics are monitored individually for our banking subsidiaries, and for our consolidated enterprise on a daily basis, including 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 \$1.9 billion in 2017 , led by net income of \$1.7 billion , proceeds from sales of mortgage loans held for sale of \$3.2 billion and proceeds from sales of commercial loans held for sale of \$2.0 billion , partially offset by originations of mortgage loans held for sale of \$2.9 billion and purchases of commercial loans held for sale of \$2.1 billion . Net cash used by investing activities was \$4.0 billion , primarily reflecting a net increase in loans and leases of \$3.6 billion and securities available for sale portfolio purchases of \$5.4 billion , partially offset by proceeds from maturities, paydowns and sales of securities available for sale of \$4.7 billion . Cash provided by financing activities was \$1.4 billion , driven by proceeds from issuance of long-term borrowed funds of \$15.4 billion and a net increase in deposits of \$5.3 billion , partially offset by repayments

# CITIZENS FINANCIAL GROUP, INC.

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of long-term borrowed funds of \$12.8 billion and a net decrease in other short-term borrowed funds of \$5.0 billion . The \$15.4 billion proceeds included \$3.3 billion from issuances of medium term debt and \$12.1 billion in FHLB advances. The \$12.8 billion of repayments were all related to FHLB advances. These activities represented a cumulative decrease in cash and cash equivalents of \$672 million , which, when added to 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 \$3.0 billion as of December 31, 2017 .

Cash flows from operating activities contributed \$1.5 billion in 2016 . Net cash used by investing activities was \$11.3 billion, primarily reflecting a net increase in loans and leases of \$9.1 billion and securities available for sale portfolio purchases of \$7.7 billion, partially offset by proceeds from maturities, paydowns and sales of securities available for sale of \$5.8 billion. Cash provided by financing activities was \$10.5 billion, driven by proceeds from issuance of long-term borrowed funds of \$15.1 billion and a net increase in deposits of \$7.3 billion, partially offset by repayments of long-term borrowed funds of \$8.4 billion and a net decrease in other short-term borrowed funds of \$3.2 billion. The \$15.1 billion proceeds included \$1.3 billion from issuances of medium term debt and \$13.8 billion in FHLB advances. The \$8.4 billion of repayments includes \$7.8 billion in repayments of FHLB advances and \$625 million paid to repurchase subordinated debt. These activities represented a cumulative increase in cash and cash equivalents of \$619 million, which when added to the cash and cash equivalents balance of \$3.1 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of \$3.7 billion as of December 31, 2016 .

### CONTRACTUAL OBLIGATIONS

The following table presents our outstanding contractual obligations as of December 31, 2017 :

(in millions)	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Deposits with a stated maturity of less than one year <sup>(1) (2)</sup>	\$98,480	\$98,480	\$—	\$—	\$—
Term deposits <sup>(1)</sup>	16,609	13,754	2,336	514	5
Long-term borrowed funds <sup>(1) (3)</sup>	11,765	—	7,727	2,408	1,630
Contractual interest payments <sup>(4)</sup>	1,108	291	418	222	177
Operating lease obligations	842	171	278	192	201
Purchase obligations <sup>(5)</sup>	844	473	235	82	54
<b>Total outstanding contractual obligations</b>	<b>\$129,648</b>	<b>\$113,169</b>	<b>\$10,994</b>	<b>\$3,418</b>	<b>\$2,067</b>

(1) Deposits and long-term borrowed funds exclude interest.

(2) Includes demand, checking with interest, regular savings, and money market account deposits. See “—Deposits” for further information.

(3) Includes obligations under capital leases.

(4) Includes accrued interest and future contractual interest obligations related to long-term borrowed funds.

(5) Includes purchase obligations for goods and services covered by non-cancelable contracts and contracts including cancellation fees.

### OFF-BALANCE SHEET ARRANGEMENTS

The following table presents our outstanding off-balance sheet arrangements. See Note 18 “Commitments and Contingencies” to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report:

(in millions)	December 31,		Change	Percent
	2017	2016		
Undrawn commitments to extend credit	\$62,959	\$60,872	\$2,087	3%
Financial standby letters of credit	2,036	1,892	144	8
Performance letters of credit	47	40	7	18
Commercial letters of credit	53	43	10	23
Marketing rights	41	44	(3)	(7)
Risk participation agreements	16	19	(3)	(16)
Residential mortgage loans sold with recourse	7	8	(1)	(13)
<b>Total</b>	<b>\$65,159</b>	<b>\$62,918</b>	<b>\$2,241</b>	<b>4%</b>

In 2017, we entered into an agreement to purchase education loans on a quarterly basis. As of December 31, 2017, we completed all purchases under this arrangement.

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### CRITICAL ACCOUNTING ESTIMATES

Our audited 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 audited Consolidated Financial Statements. Estimates are made using facts and circumstances known at a point in time. Changes in those facts and circumstances could produce results substantially different from those estimates. The most significant accounting policies and estimates and their related application are discussed below.

See Note 1 "Basis of Presentation" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report, for further discussion of our significant accounting policies.

#### ***Allowance for Credit Losses***

Management's estimate of probable losses in our loan and lease portfolios including unfunded lending commitments is recorded in the ALLL and the reserve for unfunded lending commitments, at levels that we believe to be appropriate as of the balance sheet date. The reserve for unfunded lending commitments is reported as a component of other liabilities in the Consolidated Balance Sheets. Our determination of such estimates is based on a periodic evaluation of the loan and lease portfolios and unfunded credit facilities, as well as other relevant factors. This evaluation is inherently subjective and requires significant estimates and judgments of underlying factors, all of which are susceptible to change.

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

The evaluation of the adequacy of the commercial, commercial real estate, and lease ALLL and reserve for unfunded lending commitments is primarily based on risk rating models that assess probability of default ("PD"), loss given default ("LGD") and exposure at default on an individual loan basis. The models are primarily driven by individual customer financial characteristics and are validated against historical experience. Additionally, qualitative factors may be included in the risk rating models. After the aggregation of individual borrower incurred loss, additional overlays can be made based on back-testing against historical losses and forward loss curve ratios.

For nonaccruing commercial and commercial real estate loans with an outstanding balance of \$3 million or greater and for all commercial and commercial real estate TDRs (regardless of size), we conduct specific analysis on a loan level basis to determine the probable amount of credit loss. If appropriate, a specific ALLL is established for the loan through a charge to the provision for credit losses. For all classes of impaired loans, individual loan measures of impairment may result in a charge-off to the ALLL, if deemed appropriate. In such cases, the provision for credit losses is not affected when a specific reserve for at least that amount already exists. Techniques utilized include comparing the loan's carrying amount to the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan's observable market price. The technique applied to each impaired loan is based on the workout officer's opinion of the most probable workout scenario. Historically, this has generally led to the use of the estimated present value of future cash flows approach. The fair value of underlying collateral will be used if the loan is deemed collateral dependent. For loans that use the fair value of underlying collateral approach, a charge-off assessment is performed quarterly to write the loans down for declines in value to fair value less cost to sell.

For most non-impaired retail loan portfolio types, the ALLL is based upon the incurred loss model utilizing the PD, LGD and exposure at default on an individual loan basis. When developing these factors, we may consider the loan product and collateral type, delinquency status, LTV ratio, lien position, borrower's credit, time outstanding,

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geographic location and incurred loss period. Incurred loss periods are reviewed and updated at least annually, and potentially more frequently when economic situations change rapidly, as they tend to fluctuate with economic cycles. Incurred loss periods are generally longer in good economic times and shorter in bad times. Certain retail portfolios, including SBO home equity loans and credit card receivables utilize roll rate models to estimate the ALLL. For the portfolios measured using the incurred loss model, roll rate models are also used to support management overlays if deemed necessary.

For home equity lines and loans, a number of factors impact the PD. Specifically, the borrower's current FICO score, the utilization rate, delinquency statistics, borrower income, current CLTV ratio and months on books are all used to assess the borrower's creditworthiness. Similarly, LGD is also impacted by various factors, including the utilization rate, the CLTV ratio, the lien position, the Housing Price Index change for the location (as measured by the Case-Shiller index), age of the loan and current loan balance.

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

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

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

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

Changes in the levels of estimated losses can significantly affect management's determination of an appropriate ALLL. For retail loans, losses are affected by such factors as loss severity, collateral values, economic conditions, and other factors. A one basis point and five basis point increase in the estimated loss rate for retail loans at December 31, 2017 would have increased the ALLL by \$6 million and \$29 million, respectively. The ALLL for our Commercial Banking segment is sensitive to assigned credit risk ratings and inherent loss rates. If 10% and 20% of the December 31, 2017 year end loan balances (including unfunded commitments) within each risk rating category of our Commercial Banking segment had experienced downgrades of two risk categories, the ALLL would have increased by \$60 million and \$111 million, respectively.

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

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. The new methodology includes a statistical analysis of prior charge-off rates on a historical basis combined with a qualitative assessment based on quantitative measures affecting the determination of incurred losses in the loan and lease portfolio and provides better alignment of the qualitative ALLL to the commercial and retail loan portfolios. The impact of the change is an increase of approximately \$50 million to the commercial ALLL with a corresponding decrease to the retail ALLL; there was not a significant impact on the total qualitative ALLL as of December 31, 2017. There were no other material changes in assumptions or

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estimation techniques compared with prior years that impacted the determination of the current year's ALLL and the reserve for unfunded lending commitments.

For additional information regarding the ALLL and reserve for unfunded lending commitments, see Note 1 "Basis of Presentation" and Note 5 "Allowance for Credit Losses, Nonperforming Assets and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

### ***Fair Value***

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

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

- Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar instruments; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by market data for substantially the full term of the asset or liability; and
- Level 3. Unobservable inputs that are supported by little or no market information and that are significant to the fair value measurement.

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

Significant assets measured at fair value on a recurring basis include our mortgage-backed securities available for sale. These instruments are priced using an external pricing service and are classified as Level 2 within the fair value hierarchy. The service's pricing models use predominantly observable valuation inputs to measure the fair value of these securities under both the market and income approaches. The pricing service utilizes a matrix pricing methodology to price our U.S. agency pass-through securities, which involves making adjustments to to-be-announced security prices based on a matrix of various mortgage-backed securities characteristics such as weighted-average maturities, indices and other pool-level information. Other agency and non-agency mortgage-backed securities are priced using a discounted cash flow methodology. This methodology includes estimating the cash flows expected to be received for each security using projected prepayment speeds and default rates based on historical statistics of the underlying collateral and current market conventions. These estimated cash flows are then discounted using market-based discount rates that incorporate characteristics such as average life, volatility, ratings, performance of the underlying collateral, and prevailing market conditions.

We review and update the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs in fair value measurements may result in a reclassification between the fair value hierarchy levels and are recognized based on year-end balances. We also verify the accuracy of the pricing provided by our primary external pricing service on a quarterly basis. This process involves using a secondary external vendor to provide valuations for our securities portfolio for comparison purposes. Any securities with discrepancies beyond a certain threshold are researched and, if necessary, valued by an independent outside broker.

Fair value is also used on a nonrecurring basis to evaluate certain assets for impairment or for disclosure purposes. Examples of nonrecurring uses of fair value include mortgage servicing rights accounted for by the amortization method, loan impairments for certain loans and goodwill.

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

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For additional information regarding our fair value measurements, see Note 1 "Basis of Presentation," Note 3 "Securities," Note 8 "Mortgage Banking," Note 13 "Derivatives," and Note 19 "Fair Value Measurements" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

### **Income Taxes**

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

We are subject to income tax in the U.S. and multiple state and local jurisdictions. The tax laws and regulations in each jurisdiction may be interpreted differently in certain situations, which could result in a range of outcomes. Thus, we are required to exercise judgment regarding the application of these tax laws and regulations. We evaluate and recognize tax liabilities related to any tax uncertainties. Due to the complexity of some of these uncertainties, the ultimate resolution may differ from the current estimate of tax liabilities or refunds.

Our estimate of accrued income taxes, deferred income taxes and income tax expense can also change in any period as a result of new legislative or judicial guidance impacting tax positions, as well as changes in income tax rates.

For additional information regarding income taxes, see Note 1 "Basis of Presentation," and Note 22 "Income Taxes" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

### **RISK GOVERNANCE**

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

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

### **Risk Framework**

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

#### *First Line of Defense*

The business lines (including their associated support functions) are the first line of defense and are accountable for identifying, assessing, managing, and controlling the risks associated with the products and services they provide. The business lines are responsible for performing regular risk assessments to identify and assess the material risks that arise in their area of responsibility, complying with relevant risk policies, testing and certifying the adequacy and effectiveness of their operational and financial reporting controls on a regular basis, establishing

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and documenting operating procedures and establishing and owning a governance structure for identifying and managing risk.

### *Second Line of Defense*

The second line of defense includes independent monitoring and control functions accountable for developing and ensuring implementation of risk and control frameworks and related policies. This centralized risk function is appropriately independent from the business and is accountable for overseeing and challenging our business lines on the effective management of their risks, including credit, market, operational, regulatory, reputational, interest rate, liquidity and strategic risks.

### *Third Line of Defense*

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

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

### **Risk Appetite**

Risk appetite is a strategic business and risk management tool. We define our risk appetite as the maximum limit of acceptable risk beyond which we could be unable to achieve our strategic objectives and capital adequacy obligations.

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

### **Credit Risk**

#### *Overview*

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

#### *Objective*

The independent Credit Risk Function is responsible for reviewing and approving credit risk appetite across all lines of business and credit products, approving larger and higher risk credit transactions, monitoring portfolio performance, identifying problem credit exposures, and ensuring remedial management.

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### *Organizational Structure*

Management and oversight of credit risk is the responsibility of both the business line and the second line of defense. The second line of defense, the independent Credit Risk Function, is led by the Chief Credit Officer who oversees all of our credit risk. The Chief Credit Officer reports to the Chief Risk Officer. The Chief Credit Officer, acting in a manner consistent with Board policies, has responsibility for, among other things, the governance process around policies, procedures, risk acceptance criteria, credit risk appetite, limits and authority delegation. The Chief Credit Officer and team also have responsibility for credit approvals for larger and higher risk transactions and oversight of line of business credit risk activities. Reporting to the Chief Credit Officer are the heads of the second line of defense credit functions specializing in: Consumer Banking, Commercial Banking, Citizens Restructuring Management, Portfolio and Corporate Reporting, ALLL Analytics, Current Expected Credit Loss, and Credit Policy and Administration. Each team under these leaders is composed of highly experienced credit professionals.

### *Governance*

The primary mechanisms used to govern our credit risk function are our consumer and commercial credit policies. These policies outline the minimum acceptable lending standards that align with our desired risk appetite. Material changes in our business model and strategies that identify a need to change our risk appetite or highlight a risk not previously contemplated are identified by the individual committees and presented to the Credit Policy Committee, Executive Risk Committee and the Board Risk Committee for approval, as appropriate.

### *Key Management Processes*

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

### **Consumer**

On the consumer banking side of credit risk, our teams use models to evaluate consumer loans across the lifecycle of the loan. Starting at origination, credit scoring models are used to forecast the probability of default of an applicant. When approving customers for a new loan or extension of an existing credit line, credit scores are used in conjunction with other credit risk variables such as affordability, length of term, collateral value, collateral type, and lien subordination.

To ensure proper oversight of the underwriting teams, lending authority is granted by the second line of defense credit risk function to each underwriter. The amount of delegated authority depends on the experience of the individual. We periodically evaluate the performance of each underwriter and annually reauthorize their delegated authority. Only senior members of the second line of defense credit risk team are authorized to approve significant exceptions to credit policies. It is not uncommon to make exceptions to established policies when compensating factors are present. There are exception limits which, when reached, trigger a comprehensive analysis.

Once an account is established, credit scores and collateral values are refreshed at regular intervals to allow for proactive identification of increasing or decreasing levels of credit risk. Our approach to managing credit risk is highly analytical and, where appropriate, is automated, to ensure consistency and efficiency.

### **Commercial**

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

Commercial credit risk management begins with defined credit products and policies.

Commercial transactions are subject to individual analysis and approval at origination and, with few exceptions, are subject to a formal annual review requirement. The underwriting process includes the establishment and approval of credit grades that confirm the PD and LGD. All material transactions then require the approval of both a business line approver and an independent credit approver with the requisite level of delegated authority. The approval level of a particular credit facility is determined by the size of the credit relationship as well as the PD. The checks and balances in the credit process and the independence of the credit approver function are designed to appropriately assess and sanction the level of credit risk being accepted, facilitate the early recognition of credit

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problems when they occur, and to provide for effective problem asset management and resolution. All authority to grant credit is delegated through the independent Credit Risk function and is closely monitored and regularly updated.

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

The maximum level of credit exposure to individual credit borrowers is limited by policy guidelines based on the perceived risk of each borrower or related group of borrowers. Concentration risk is managed through limits on industry asset class and loan quality factors. We focus predominantly on extending credit to commercial customers with existing or expandable relationships within our primary markets (for this purpose defined as our 11 state footprint plus contiguous states), although we do engage in lending opportunities outside our primary markets if we believe that the associated risks are acceptable and aligned with strategic initiatives.

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

### **MARKET RISK**

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

#### ***Non-Trading Risk***

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

#### *Interest Rate Risk*

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

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 a debt or certificates of deposit may be fixed for a longer period. There are differences in the drivers of rate changes as well. Loans may be tied to a specific index rate such as LIBOR or Prime, while deposits may be only loosely correlated with LIBOR and depend on competitive demand. Due to these basis differences, net interest income is sensitive to changes in spreads between certain indices or repricing rates.

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

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

# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

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

The table below reports net interest income exposures against a variety of interest rate scenarios. 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 in December 2016, March 2017, June 2017, and December 2017, exposure to falling rates has increased. While rates have begun to rise off of the very low levels, an instantaneous decline of 2.0% is still not possible. 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:

<b>Basis points</b>	<b>Estimated % Change in Net Interest Income over 12 Months</b>	
	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Instantaneous Change in Interest Rates</b>		
+200	9.6 %	11.3 %
+100	4.9	5.6
-100	(5.9)	(6.9)
<b>Gradual Change in Interest Rates</b>		
+200	5.1	5.9
+100	2.7	3.1
-100	(1.8)	(3.0)

Asset sensitivity against a 200 basis point gradual increase in rates was 5.1% at December 31, 2017, a decline from 5.9% at December 31, 2016. The core asset sensitivity is the result of a faster repricing of the loan book relative

# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

to the deposit and equity funding. As the Fed has slowly begun to normalize rates, given improved economic growth and data, this upward trend in rates has benefited our net interest income and net interest margin as a result of the asset sensitivity. The risk position can be affected by changes in interest rates which impact the repricing sensitivity or beta of the deposit base as well as the cash flows on prepayable assets. The risk position is managed within our risk limits through occasional adjustments to securities investments, interest rate swaps and mix of funding.

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

### *Capital Markets*

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

### *Mortgage Servicing Rights*

We have market risk associated with the value of the mortgage servicing right assets, which are impacted by the level of interest rates. As of December 31, 2017 and 2016, our mortgage servicing rights had a book value of \$198 million and \$162 million, respectively, and were carried at the lower of cost or fair value. As of December 31, 2017 and 2016, the fair value of the mortgage servicing rights was \$218 million and \$182 million, respectively, which exceeded the carrying value at those dates. Depending on the interest rate environment, hedges may be used to stabilize the market value of the mortgage servicing right asset.

### *Trading Risk*

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

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 Consolidated Statements of Operations.

### *Market Risk Governance*

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

# CITIZENS FINANCIAL GROUP, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *Market Risk Measurement*

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

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

### *VaR Overview*

The market risk measurement model is based on historical simulation. The VaR measure estimates the extent of any fair value losses on trading positions that may occur due to broad market movements (General VaR) such as changes in the level of interest rates, foreign exchange rates, equity prices and commodity prices. It is calculated on the basis that current positions remain broadly unaltered over the course of a given holding period. It is assumed that markets are sufficiently liquid to allow the business to close its positions, if required, within this holding period. VaR's benefit is that it captures the historic correlations of a portfolio. Based on the composition of our "covered positions," we also use a standardized add-on approach for the loan trading desk's Specific Risk capital which estimates the extent of any losses that may occur from factors other than broad market movements. During the quarter ending March 31, 2017, we integrated our secondary traded loans into our enterprise wide market risk platform for the calculation of VaR on the general interest rate risk embedded within the traded loans. And thus retired the associated standalone model that replicated the general VaR methodology on the traded loans (the related capital was historically reflected on the "de minimis" line in the following section in prior quarters). The measured VaR on the trading portfolio is now comprised of three covered position sub-portfolios (interest rate derivatives, foreign exchange, and traded loans). The General VaR approach is expressed in terms of a confidence level over the past 500 trading days. The internal VaR measure (used as the basis of the main VaR trading limits) is a 99% confidence level with a one day holding period, meaning that a loss greater than the VaR is expected to occur, on average, on only one day in 100 trading days (i.e., 1% of the time). Theoretically, there should be a loss event greater than VaR two to three times per year. The regulatory measure of VaR is done at a 99% confidence level with a ten-day holding period. The historical market data applied to calculate the VaR is updated on a two business day lag. Refer to "Market Risk Regulatory Capital" below for details of our ten-day VaR metrics for the quarters ended December 31, 2017 and 2016, including high, low, average and period end VaR for interest rate and foreign exchange rate risks, as well as total VaR.

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

*Market Risk Regulatory Capital*

The U.S. banking regulators' "Market Risk Rule" covers the calculation of market risk capital. The Market Risk Rule, commonly known as Basel 2.5, substantially modified the determination of market risk-weighted assets and implemented a more risk sensitive methodology for the risk inherent in certain trading positions categorized as "covered positions." For the purposes of the Market Risk Rule, all of our client facing trades and associated hedges need to maintain a low risk profile to qualify, and do qualify, as "covered positions." For the three months ended December 31, 2017, we were not subject to the reporting threshold under the Market Risk Rule, as we did not meet the applicability threshold, and as such, our covered trading activities were risk-weighted under U.S. Basel III Standardized credit risk rules. While not subject to the determination requirements of market risk-weighted assets, we nevertheless comply with the Market Risk Rule's other requirements. The internal management VaR measure is calculated based on the same population of trades that is utilized for regulatory VaR. The following table presents, for information and comparison purposes, the results of our modeled and non-modeled measures for regulatory capital calculations as if we had met the threshold under the Market Risk Rule for both periods presented:

(in millions)	For the Three Months Ended December 31, 2017				For the Three Months Ended December 31, 2016			
	Period End	Average	High	Low	Period End	Average	High	Low
Interest Rate	\$2	\$1	\$2	\$1	\$ 1	\$ —	\$ 1	\$ —
Foreign Exchange Currency Rate	—	—	—	—	—	—	—	—
Credit Spread	2	2	2	1	—	—	—	—
General VaR	3	2	3	1	1	—	1	—
Specific Risk VaR	—	—	—	—	—	—	—	—
Total VaR	\$3	\$2	\$3	\$1	\$ 1	\$ —	\$ —	\$ —
Stressed General VaR	\$11	\$9	\$12	\$7	3	3	4	1
Stressed Specific Risk VaR	—	—	—	—	—	—	—	—
Total Stressed VaR	\$11	\$9	\$12	\$7	\$ 3	\$ 3	\$ 4	\$ 1
Market Risk Regulatory Capital	\$34				\$ 9			
Specific Risk Not Modeled Add-on	10				5			
de Minimis Exposure Add-on	—				16			
Total Market Risk Regulatory Capital	\$44				\$ 30			
Market Risk-Weighted Assets (calculated)	\$555				\$ 381			
Market Risk-Weighted Assets (included in regulatory filing) (1)	\$—				\$ 381			

(1) For the three months ended December 31, 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.

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

*Stress Testing*

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

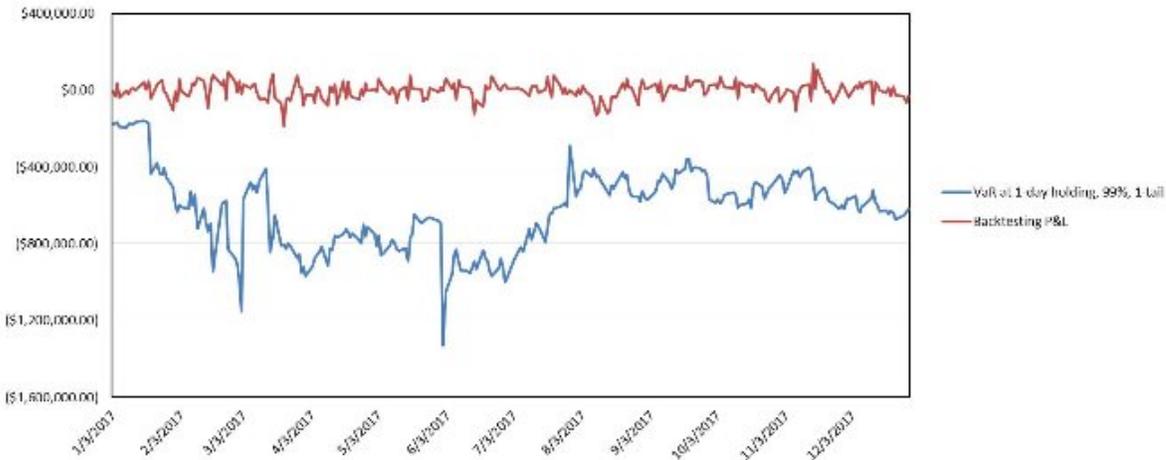
Market risk measurement models used are independently reviewed and subject to ongoing performance analysis by the model owner. The independent review and validation focuses on the model methodology, market data, and performance. Independent review of market risk measurement models is the responsibility 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.

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

*VaR Backtesting*

Backtesting is one form of validation of the VaR model and is run daily. The Market Risk Rule requires a comparison of our internal VaR measure to the actual net trading revenue (excluding fees, commissions, reserves, intra-day trading and net interest income) for each day over the preceding year (the most recent 250 business days). Any observed loss in excess of the VaR number is taken as an exception. The level of exceptions determines the multiplication factor used to derive the VaR and SVaR-based capital requirement for regulatory reporting purposes, when applicable. We perform sub-portfolio backtesting as required under the Market Risk Rule, and as approved by our banking regulators, for interest rate, credit spread, and foreign exchange positions. The following graph shows our daily net trading revenue and total internal, modeled VaR for the quarters ended December 31, 2017, September 30, 2017, June 30, 2017 and March 31, 2017.

*Daily VaR Backtesting*



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

# CITIZENS FINANCIAL GROUP, INC.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk are presented in the "Market Risk" section of Part II, Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations is incorporated herein by reference.

**CITIZENS FINANCIAL GROUP, INC.**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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# CITIZENS FINANCIAL GROUP, INC.

## REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Company's system of internal control over financial reporting is designed, under the supervision of the Chief Executive Officer and the Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2017 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (2013)*. Based on that assessment, management concluded that, as of December 31, 2017, the Company's internal control over financial reporting is effective.

The Company's internal control over financial reporting as of December 31, 2017 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their accompanying report, appearing on page 117, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

# CITIZENS FINANCIAL GROUP, INC.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of  
Citizens Financial Group, Inc.  
Providence, Rhode Island

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Citizens Financial Group, Inc. and its subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Boston, Massachusetts  
February 22, 2018

We have served as the Company's auditor since 2000.

# CITIZENS FINANCIAL GROUP, INC.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of  
Citizens Financial Group, Inc.  
Providence, Rhode Island

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Citizens Financial Group, Inc. and its subsidiaries (the "Company") as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017, of the Company and our report dated February 22, 2018, expressed an unqualified opinion on those consolidated financial statements.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Boston, Massachusetts  
February 22, 2018

# CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	December 31, 2017	December 31, 2016
<b>ASSETS:</b>		
Cash and due from banks	\$987	\$955
Interest-bearing cash and due from banks	2,045	2,749
Interest-bearing deposits in banks	192	439
Securities available for sale, at fair value (including \$91 and \$256 pledged to creditors, respectively) (a)	20,157	19,501
Securities held to maturity (fair value of \$4,668 and \$5,058, respectively)	4,685	5,071
Other investment securities, at fair value	169	96
Other investment securities, at cost	722	942
Loans held for sale, at fair value	497	583
Other loans held for sale	221	42
Loans and leases	110,617	107,669
Less: Allowance for loan and lease losses	(1,236)	(1,236)
Net loans and leases	109,381	106,433
Derivative assets	617	627
Premises and equipment, net	685	601
Bank-owned life insurance	1,656	1,612
Goodwill	6,887	6,876
Due from broker	6	—
Other assets	3,429	2,993
<b>TOTAL ASSETS</b>	<b>\$152,336</b>	<b>\$149,520</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
<b>LIABILITIES:</b>		
Deposits:		
Noninterest-bearing	\$29,279	\$28,472
Interest-bearing	85,810	81,332
Total deposits	115,089	109,804
Federal funds purchased and securities sold under agreements to repurchase	815	1,148
Other short-term borrowed funds	1,856	3,211
Derivative liabilities	310	659
Deferred taxes, net	571	714
Long-term borrowed funds	11,765	12,790
Other liabilities	1,660	1,447
<b>TOTAL LIABILITIES</b>	<b>132,066</b>	<b>129,773</b>
Contingencies (refer to Note 18)		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$25.00 par value, authorized 100,000,000 shares:		
Series A, non-cumulative perpetual, \$25 par value, (liquidation preference \$1,000), 250,000 shares authorized and issued net of issuance costs and related premium at December 31, 2017 and December 31, 2016	247	247
Common stock:		
\$0.01 par value, 1,000,000,000 shares authorized, 565,850,984 shares issued and 490,812,912 shares outstanding at December 31, 2017 and 1,000,000,000 shares authorized, 564,630,542 shares issued and 511,954,871 shares outstanding at December 31, 2016	6	6
Additional paid-in capital	18,781	18,722
Retained earnings	4,164	2,703
Treasury stock, at cost, 75,038,072 and 52,675,671 shares at December 31, 2017 and December 31, 2016, respectively	(2,108)	(1,263)
Accumulated other comprehensive loss	(820)	(668)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>20,270</b>	<b>19,747</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$152,336</b>	<b>\$149,520</b>

(a) Includes only collateral pledged by the Company where counterparties have the right to sell or pledge the collateral. The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.



# CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except share and per-share data)	Year Ended December 31,		
	2017	2016	2015
<b>INTEREST INCOME:</b>			
Interest and fees on loans and leases	\$4,249	\$3,653	\$3,211
Interest and fees on loans held for sale, at fair value	18	15	10
Interest and fees on other loans held for sale	10	6	7
Investment securities	625	584	621
Interest-bearing deposits in banks	18	8	5
Total interest income	4,920	4,266	3,854
<b>INTEREST EXPENSE:</b>			
Deposits	441	270	237
Federal funds purchased and securities sold under agreements to repurchase	3	2	16
Other short-term borrowed funds	31	40	67
Long-term borrowed funds	272	196	132
Total interest expense	747	508	452
Net interest income	4,173	3,758	3,402
Provision for credit losses	321	369	302
Net interest income after provision for credit losses	3,852	3,389	3,100
<b>NONINTEREST INCOME:</b>			
Service charges and fees	516	522	500
Card fees	233	203	232
Capital markets fees	194	136	104
Trust and investment services fees	158	146	157
Letter of credit and loan fees	121	112	110
Foreign exchange and interest rate products	109	103	90
Mortgage banking fees	108	112	101
Securities gains, net	11	16	29
Net securities impairment losses recognized in earnings	(7)	(12)	(7)
Other income	91	159	106
Total noninterest income	1,534	1,497	1,422
<b>NONINTEREST EXPENSE:</b>			
Salaries and employee benefits	1,761	1,709	1,636
Outside services	404	377	371
Occupancy	319	307	319
Equipment expense	263	263	257
Amortization of software	180	170	146
Other operating expense	547	526	530
Total noninterest expense	3,474	3,352	3,259
Income before income tax expense	1,912	1,534	1,263
Income tax expense	260	489	423
<b>NET INCOME</b>	<b>\$1,652</b>	<b>\$1,045</b>	<b>\$840</b>
<b>Net income available to common stockholders</b>	<b>\$1,638</b>	<b>\$1,031</b>	<b>\$833</b>
Weighted-average common shares outstanding:			
Basic	502,157,440	522,093,545	535,599,731
Diluted	503,685,091	523,930,718	538,220,898
Per common share information:			
Basic earnings	\$3.26	\$1.97	\$1.55
Diluted earnings	3.25	1.97	1.55
Dividends declared and paid	0.64	0.46	0.40

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

# CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)	Year Ended December 31,		
	2017	2016	2015
Net income	\$1,652	\$1,045	\$840
Other comprehensive loss:			
Net unrealized derivative instrument (losses) gains arising during the periods, net of income taxes of (\$9), (\$38) and \$57, respectively	(14)	(62)	93
Reclassification adjustment for net derivative gains included in net income, net of income taxes of (\$9), (\$22), and (\$9), respectively	(16)	(36)	(14)
Net unrealized securities losses arising during the periods, net of income taxes of (\$4), (\$82), and (\$38), respectively	(6)	(139)	(66)
Other-than-temporary impairment not recognized in earnings on securities, net of income taxes of \$0, (\$10), and (\$14), respectively	—	(17)	(22)
Reclassification of net securities gains to net income, net of income taxes of (\$2), (\$2) and (\$8), respectively	(2)	(2)	(14)
Employee benefit plans:			
Actuarial gain (loss), net of income taxes of \$12, (\$20) and (\$3), respectively	19	(34)	(3)
Amortization of actuarial loss, net of income taxes of \$5, \$6 and \$3, respectively	13	10	12
Amortization of prior service cost, net of income taxes of \$0, \$0 and \$0, respectively	(1)	(1)	(1)
Total other comprehensive loss, net of income taxes	(7)	(281)	(15)
<b>Total comprehensive income</b>	<b>\$1,645</b>	<b>\$764</b>	<b>\$825</b>

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

# CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in millions)	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount					
<b>Balance at January 1, 2015</b>	—	\$—	546	\$6	\$18,676	\$1,294	(\$336)	(\$372)	\$19,268
Dividends to common stockholders	—	—	—	—	—	(214)	—	—	(214)
Dividend to preferred stockholders	—	—	—	—	—	(7)	—	—	(7)
Issuance of preferred stock	—	247	—	—	—	—	—	—	247
Treasury stock purchased	—	—	(20)	—	—	—	(500)	—	(500)
Share-based compensation plans	—	—	2	—	40	—	(22)	—	18
Employee stock purchase plan shares purchased	—	—	—	—	9	—	—	—	9
Total comprehensive income:									
Net income	—	—	—	—	—	840	—	—	840
Other comprehensive loss	—	—	—	—	—	—	—	(15)	(15)
Total comprehensive income	—	—	—	—	—	840	—	(15)	825
<b>Balance at December 31, 2015</b>	—	\$247	528	\$6	\$18,725	\$1,913	(\$858)	(\$387)	\$19,646
Dividends to common stockholders	—	—	—	—	—	(241)	—	—	(241)
Dividend to preferred stockholders	—	—	—	—	—	(14)	—	—	(14)
Treasury stock purchased	—	—	(17)	—	(25)	—	(405)	—	(430)
Share-based compensation plans	—	—	1	—	12	—	—	—	12
Employee stock purchase plan shares purchased	—	—	—	—	10	—	—	—	10
Total comprehensive income:									
Net income	—	—	—	—	—	1,045	—	—	1,045
Other comprehensive loss	—	—	—	—	—	—	—	(281)	(281)
Total comprehensive income	—	—	—	—	—	1,045	—	(281)	764
<b>Balance at December 31, 2016</b>	—	\$247	512	\$6	\$18,722	\$2,703	(\$1,263)	(\$668)	\$19,747
Dividends to common stockholders	—	—	—	—	—	(322)	—	—	(322)
Dividends to preferred stockholders	—	—	—	—	—	(14)	—	—	(14)
Treasury stock purchased	—	—	(22)	—	25	—	(845)	—	(820)
Share-based compensation plans	—	—	1	—	22	—	—	—	22
Employee stock purchase plan shares purchased	—	—	—	—	12	—	—	—	12
Total comprehensive income:									
Net income	—	—	—	—	—	1,652	—	—	1,652
Other comprehensive loss	—	—	—	—	—	—	—	(7)	(7)
Total comprehensive income	—	—	—	—	—	1,652	—	(7)	1,645
Reclassification of tax effects resulting from the 2017 Tax Legislation	—	—	—	—	—	145	—	(145)	—
<b>Balance at December 31, 2017</b>	—	\$247	491	\$6	\$18,781	\$4,164	(\$2,108)	(\$820)	\$20,270

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

# CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Year Ended December 31,		
	2017	2016	2015
<b>OPERATING ACTIVITIES</b>			
Net income	\$1,652	\$1,045	\$840
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	321	369	302
Originations of mortgage loans held for sale	(2,911)	(2,829)	(2,363)
Proceeds from sales of mortgage loans held for sale	3,161	2,652	2,381
Purchases of commercial loans held for sale	(2,057)	(1,355)	(1,176)
Proceeds from sales of commercial loans held for sale	1,963	1,335	1,158
Amortization of terminated cash flow hedges, net	(15)	(8)	17
Depreciation, amortization and accretion	502	523	471
Mortgage servicing rights valuation recovery	(2)	(4)	(9)
Securities impairment	7	12	7
Deferred income taxes	(136)	153	249
Share-based compensation	48	23	24
Net gain on sales of:			
Debt securities	(11)	(16)	(29)
Marketable equity securities available for sale	(1)	(3)	(3)
Premises and equipment	—	(2)	(9)
Extinguishment of debt	—	—	(3)
Other loans held for sale	(17)	(72)	—
Increase in other assets	(502)	(274)	(467)
Decrease in other liabilities	(119)	(59)	(161)
Net cash provided by operating activities	1,883	1,490	1,229
<b>INVESTING ACTIVITIES</b>			
Investment securities:			
Purchases of securities available for sale	(5,394)	(7,664)	(6,783)
Proceeds from maturities and paydowns of securities available for sale	3,470	3,785	3,420
Proceeds from sales of securities available for sale	1,257	1,966	3,916
Purchases of securities held to maturity	(171)	(523)	(932)
Proceeds from maturities and paydowns of securities held to maturity	561	720	761
Proceeds from sales of securities held to maturity	—	—	72
Purchases of other investment securities, at fair value	(326)	(246)	(157)
Proceeds from sales of other investment securities, at fair value	253	220	120
Purchases of other investment securities, at cost	(400)	(166)	(91)
Proceeds from sales of other investment securities, at cost	637	87	95
Net decrease (increase) in interest-bearing deposits in banks	247	(83)	14
Purchases of mortgage servicing rights	(28)	—	—
Net increase in loans and leases	(3,634)	(9,074)	(6,019)
Net increase in bank-owned life insurance	(44)	(48)	(37)
Premises and equipment:			
Purchases	(253)	(138)	(121)
Proceeds from sales	—	3	15
Capitalization of software	(159)	(165)	(178)
Net cash used in investing activities	(3,984)	(11,326)	(5,905)

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

# CITIZENS FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in millions)	Year Ended December 31,		
	2017	2016	2015
<b>FINANCING ACTIVITIES</b>			
Net increase in deposits	5,285	7,265	6,832
Net (decrease) increase in federal funds purchased and securities sold under agreements to repurchase	(333)	346	(3,474)
Net decrease in other short-term borrowed funds	(4,959)	(3,186)	(4,383)
Proceeds from issuance of long-term borrowed funds	15,363	15,144	6,750
Repayments of long-term borrowed funds	(12,751)	(8,429)	(766)
Treasury stock purchased	(820)	(430)	(500)
Net proceeds from issuance of preferred stock	—	—	247
Dividends declared and paid to common stockholders	(322)	(241)	(214)
Dividends declared and paid to preferred stockholders	(14)	(14)	(7)
Payments of employee tax withholding for share-based compensation	(20)	—	—
Net cash provided by financing activities	1,429	10,455	4,485
<b>(Decrease) increase in cash and cash equivalents (a)</b>	<b>(672)</b>	<b>619</b>	<b>(191)</b>
<b>Cash and cash equivalents at beginning of period (a)</b>	<b>3,704</b>	<b>3,085</b>	<b>3,276</b>
<b>Cash and cash equivalents at end of period (a)</b>	<b>\$3,032</b>	<b>\$3,704</b>	<b>\$3,085</b>
<b>Supplemental disclosures:</b>			
Interest paid	\$716	\$505	\$454
Income taxes paid	371	94	157
<b>Non-cash items:</b>			
Loans securitized and transferred to securities available for sale	\$134	\$68	\$3
Stock purchased for share-based compensation plans	22	12	40
Stock purchased for Employee Stock Purchase Plan	12	10	9
Due from broker for securities sold but not settled	6	—	—
Income tax withholding on stock purchased for share based compensation	—	—	22

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

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

# CITIZENS FINANCIAL GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 - BASIS OF PRESENTATION

The accounting and reporting policies of Citizens Financial Group, Inc. conform to GAAP. The Company's principal business activity is banking, conducted through its subsidiaries Citizens Bank, National Association and Citizens Bank of Pennsylvania.

#### ***Basis of Presentation***

The Consolidated Financial Statements include the accounts of the Company and subsidiaries in which the Company has a controlling financial interest. All intercompany transactions and balances have been eliminated. The Company has evaluated its unconsolidated entities and does not believe that any entity in which it has an interest, but does not currently consolidate, meets the requirements to be consolidated as a variable interest entity.

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

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

Additionally, certain prior period balances in the table of deferred tax assets and liabilities in Note 22 — "Income Taxes" have been reclassified to reflect current year presentation. These changes had no effect on net income, total comprehensive income, total assets or total stockholders' equity as previously reported.

#### ***Significant Accounting Policies***

##### ***Revenue Recognition***

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest income on loans and securities classified as AFS or HTM is determined using the effective interest method. This method calculates periodic interest income at a constant effective yield on the net investment in the loan or security, to provide a constant rate of return over the terms of the financial assets. Financial assets accounted for using the fair value option are measured at fair value with corresponding changes recognized in noninterest income.

Other types of noninterest revenues, such as service charges on deposits, interchange income on credit cards and trust revenues, are accrued and recognized into income as services are provided and the amount of fees earned are reasonably determinable.

##### ***Transfer of Financial Assets***

A transfer of financial assets is accounted for as a sale when control over the assets transferred is surrendered. Assets transferred that satisfy the conditions of a sale are derecognized, and all assets obtained and liabilities incurred in a purchase are recognized and measured at fair value. Servicing rights retained in the transfer of financial assets are initially recognized at fair value. Subsequent to the initial recognition date, servicing rights are accounted for at the lower of cost or market. The Company recognizes periodic amortization expense of servicing rights and assesses servicing rights for impairment.

**CITIZENS FINANCIAL GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table identifies the Company's significant accounting policies and the Note and Page where a detailed description of each policy can be found.

<b>Policy</b>	<b>Note</b>	<b>Page</b>
		<a href="#">130</a>
Cash and Due From Banks	<a href="#">Note 2</a>	
Securities	<a href="#">Note 3</a>	<a href="#">130</a>
		<a href="#">135</a>
Loans and Leases	<a href="#">Note 4</a>	
Allowance for Credit Losses	<a href="#">Note 5</a>	<a href="#">138</a>
Premises, Equipment and Software	<a href="#">Note 6</a>	<a href="#">152</a>
Operating Lease Assets	<a href="#">Note 6</a>	<a href="#">152</a>
Mortgage Servicing Rights	<a href="#">Note 8</a>	<a href="#">153</a>
Goodwill	<a href="#">Note 9</a>	<a href="#">155</a>
Variable Interest Entities	<a href="#">Note 10</a>	<a href="#">157</a>
Derivative Instruments	<a href="#">Note 13</a>	<a href="#">161</a>
Employee Benefits	<a href="#">Note 14</a>	<a href="#">164</a>
Treasury Stock	<a href="#">Note 16</a>	<a href="#">171</a>
Employee Share-Based Compensation	<a href="#">Note 17</a>	<a href="#">172</a>
Fair Value Measurement	<a href="#">Note 19</a>	<a href="#">176</a>
Other Income	<a href="#">Note 20</a>	<a href="#">183</a>
Income Taxes	<a href="#">Note 22</a>	<a href="#">183</a>
Earnings Per Share	<a href="#">Note 23</a>	<a href="#">186</a>

**Accounting and Reporting Developments**

**Accounting Pronouncements Adopted in 2017**

<b>Pronouncement</b>	<b>Summary of Guidance</b>	<b>Effects on Financial Statements</b>
Reporting Comprehensive Income <i>Issued February 2018</i>	<ul style="list-style-type: none"> <li>• If elected, requires a reclassification between AOCI and retained earnings for the effect of remeasuring deferred tax assets and liabilities to the newly enacted tax rate of 21% under the 2017 Tax Legislation.</li> <li>• The amount of the reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previously enacted U.S. federal corporate income tax rate that remained in AOCI and the amount that would have been charged or credited directly to other comprehensive income using the newly enacted 21% U.S. federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations.</li> </ul>	<ul style="list-style-type: none"> <li>• The Company adopted retrospectively to December 31, 2017, ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, elected to reclassify \$145 million between AOCI and retained earnings, including indirect impacts from the decreased federal tax effect on future state tax benefits, and reflected this reclassification in the Company's 2017 Consolidated Financial Statements, included in this report.</li> </ul>
Stock Compensation <i>Issued March 2016</i>	<ul style="list-style-type: none"> <li>• Requires that all excess tax benefits and excess tax deductions that pertain to employee stock-based incentive payments are recognized within income tax expense in the Consolidated Statement of Operations, rather than within additional paid in capital.</li> <li>• This standard also allows entities to make a one-time policy election to account for forfeitures when they occur, which the Company elected to do.</li> </ul>	<ul style="list-style-type: none"> <li>• Adopted January 1, 2017.</li> <li>• Adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.</li> </ul>

**CITIZENS FINANCIAL GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Accounting Pronouncements Pending Adoption**

Pronouncement	Summary of Guidance	Effects on Financial Statements
Stock Compensation <i>Issued May 2017</i>	<ul style="list-style-type: none"> <li>• Requires modification accounting unless the fair value, vesting conditions, and classification of the modified award are the same as the original award immediately before the modification.</li> <li>• Applied prospectively to all modifications of share-based awards after the adoption date.</li> </ul>	<ul style="list-style-type: none"> <li>• Required effective date: January 1, 2018. Early adoption is permitted. The Company will adopt the new standard in the first quarter of 2018.</li> <li>• Adoption will not have a material impact on the Company's Consolidated Financial Statements.</li> </ul>
Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost <i>Issued March 2017</i>	<ul style="list-style-type: none"> <li>• Requires the service cost component of net periodic pension and postretirement benefit cost to be reported separately in the Consolidated Statements of Operations from the other components (e.g., expected return on assets, interest costs, amortization of gains/losses and prior service costs).</li> <li>• Requires presentation in the Consolidated Statements of Operations of the service cost component in the same line item as other employee compensation costs and presentation of the other components in a different line item from the service cost component.</li> <li>• Retrospective application is required for all periods presented.</li> </ul>	<ul style="list-style-type: none"> <li>• Required effective date: January 1, 2018. Early adoption is permitted. The Company will adopt the new standard in the first quarter of 2018.</li> <li>• Adoption will have no impact on the Company's net income, but based on recent experience that the expected return on assets exceeds the sum of the other components, the Company expects that the guidance will result in an increase in salaries and employee benefits expense and a reduction in other operating expense.</li> </ul>
Revenue Recognition: Revenue from Contracts with Customers <i>Issued May 2014</i>	<ul style="list-style-type: none"> <li>• Requires that revenue from contracts with customers be recognized upon transfer of control of a good or service in the amount of consideration expected to be received.</li> <li>• Changes the accounting for certain contract costs including whether they may be offset against revenues in the Consolidated Statements of Operations.</li> <li>• Requires new qualitative and quantitative disclosures, including information about disaggregation of revenue and performance obligations.</li> <li>• May be adopted using a full retrospective basis or a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption.</li> </ul>	<ul style="list-style-type: none"> <li>• Required effective date: January 1, 2018. Early adoption is permitted.</li> <li>• The Company will adopt the revenue guidance in the first quarter of 2018 using the modified retrospective method. Net interest income on financial assets and liabilities is explicitly excluded from the scope of the pronouncement.</li> <li>• The Company's implementation efforts included the identification of revenue within the scope of the guidance, as well as the evaluation of revenue contracts and related accounting policies. Based on these efforts, the adoption will not result in a material change in the timing or amount of revenue recognized from contracts with customers.</li> <li>• Upon adoption, underwriting costs will be presented on a gross basis as expense. Currently such costs are presented net of the related underwriting fees.</li> <li>• The Company has completed its evaluation of the expanded disclosure requirements and the most significant item will be the disaggregation of revenue.</li> </ul>
Recognition and Measurement of Financial Assets and Financial Liabilities <i>Issued January 2016</i>	<ul style="list-style-type: none"> <li>• Requires equity securities with readily determinable fair values to be measured at fair value on the balance sheet, with changes in the fair value recognized through earnings.</li> <li>• Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the notes to the financial statements.</li> <li>• Makes several other targeted amendments to the existing accounting and disclosure requirements for financial instruments, including revised guidance related to valuation allowance assessments when recognizing deferred tax assets on unrealized losses on debt securities available for sale.</li> </ul>	<ul style="list-style-type: none"> <li>• Required effective date: January 1, 2018. Early adoption is permitted.</li> <li>• Adoption will not have a material impact on the Company's Consolidated Financial Statements.</li> </ul>

**CITIZENS FINANCIAL GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Pronouncement	Summary of Guidance	Effects on Financial Statements
Classification of Certain Cash Receipts and Cash Payments <i>Issued August 2016</i>	<ul style="list-style-type: none"> <li>• Amends current guidance on specific cashflows to determine the appropriate classification as operating, investing or financing activities which has required significant judgment.</li> <li>• The application of judgment has resulted in diversity in how certain cash receipts and cash payments are classified.</li> </ul>	<ul style="list-style-type: none"> <li>• Required effective date: January 1, 2018.</li> <li>• Adoption will not have a material impact on the Company's Consolidated Financial Statements.</li> </ul>
Derivatives and Hedging <i>Issued August 2017</i>	<ul style="list-style-type: none"> <li>• Reduces the complexity and operational burdens of the current hedge accounting model and portrays more clearly the effects of hedge accounting in the financial statements.</li> <li>• Modifies current requirements to facilitate the application of hedge accounting to partial-term hedges, hedges of prepayable financial instruments, and other strategies. Adoption of these optional changes would occur on a prospective basis.</li> <li>• Requires the effects of fair value hedges to be classified in the same income statement line as the earnings effect of the hedged item. Adoption of this change will occur on a prospective basis.</li> <li>• Requires all effects of cash flow hedges to be deferred in other comprehensive income until the hedged cash flows affect earnings. Periodic hedge ineffectiveness will no longer be recognized in earnings. Adoption of this change will occur on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption.</li> </ul>	<ul style="list-style-type: none"> <li>• Required effective date: January 1, 2019. Early adoption is permitted. The Company is still evaluating whether or not it will adopt this guidance prior to the required effective date.</li> <li>• The transition entries required upon adoption are not expected to have a material impact on the Company's Consolidated Financial Statements.</li> </ul>
Premium Amortization on Purchased Callable Debt Securities <i>Issued March 2017</i>	<ul style="list-style-type: none"> <li>• Requires amortization of premiums to the earliest call date on debt securities with call features that are explicit, noncontingent and callable at fixed prices and on preset dates.</li> <li>• Requires adoption on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption.</li> </ul>	<ul style="list-style-type: none"> <li>• Required effective date: January 1, 2019.</li> <li>• Adoption is not expected to have a material impact on the Company's Consolidated Financial Statements. The Company does not currently hold callable debt securities.</li> </ul>

**CITIZENS FINANCIAL GROUP, INC.**  
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Pronouncement	Summary of Guidance	Effects on Financial Statements
Leases <i>Issued February 2016</i>	<ul style="list-style-type: none"> <li>• Requires lessees to recognize a right-of-use asset and corresponding lease liability for all leases with a lease term of greater than one year.</li> <li>• Requires lessees and lessors to classify most leases using principles similar to existing lease accounting, but eliminates the “bright line” classification tests.</li> <li>• Requires that for finance leases, a lessee recognize interest expense on the lease liability separately from the amortization of the right-of-use asset in the Consolidated Statements of Operations, while for operating leases, such amounts should be recognized as a combined expense.</li> <li>• Requires expanded disclosures about the nature and terms of lease agreements.</li> <li>• Requires adoption using a modified cumulative effect approach wherein the guidance is applied to all periods presented.</li> </ul>	<ul style="list-style-type: none"> <li>• Required effective date: January 1, 2019. Early adoption is permitted. The Company does not intend to adopt the guidance prior to the effective date.</li> <li>• The Company occupies certain banking offices and equipment under non-cancelable operating lease agreements, which currently are not reflected on its Consolidated Balance Sheets.</li> <li>• The Company expects to report increased assets and liabilities as a result of recognizing right-of-use assets and lease liabilities in its Consolidated Balance Sheets. As of December 31, 2017, the Company was committed to \$842 million of minimum lease payments under non-cancelable operating lease agreements.</li> <li>• The evaluation of the impact of the leasing pronouncement will be adjusted based on execution of new leases, termination of existing leases prior to the effective date, and any changes to key lease assumptions such as renewals, extensions and discount rates.</li> <li>• The Company does not expect a material change to the timing of expense recognition on the Consolidated Statements of Operations.</li> </ul>
Goodwill <i>Issued January 2017</i>	<ul style="list-style-type: none"> <li>• Requires an impairment loss to be recognized when the estimated fair value of a reporting unit falls below its carrying value.</li> <li>• Eliminates the second condition in the current guidance that requires an impairment loss to be recognized only if the estimated implied fair value of the goodwill is below its carrying value.</li> <li>• Applied prospectively to all goodwill impairment tests performed after the adoption date.</li> </ul>	<ul style="list-style-type: none"> <li>• Required effective date: January 1, 2020. Early adoption is permitted. The Company does not currently intend to early adopt the new standard.</li> <li>• Adoption is not expected to have a material impact on the Company’s Consolidated Financial Statements.</li> </ul>
Financial Instruments - Credit Losses <i>Issued June 2016</i>	<ul style="list-style-type: none"> <li>• Replaces existing incurred loss impairment guidance and establishes a single allowance framework for financial assets carried at amortized cost (including securities HTM), which will reflect management’s estimate of credit losses over the full remaining expected life of the financial assets.</li> <li>• Amends existing impairment guidance for securities AFS to incorporate an allowance, which will allow for reversals of impairment losses in the event that the credit of an issuer improves.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> </ul>	<ul style="list-style-type: none"> <li>• Required effective date: January 1, 2020. Early adoption permitted on January 1, 2019. The Company does not intend to adopt the guidance prior to the effective date.</li> <li>• The Company established a company-wide, cross-discipline governance structure to implement the new standard. The Company is currently identifying key interpretive issues and is comparing existing credit loss forecasting models and processes with the new guidance to determine what modifications may be required.</li> <li>• While the Company is currently evaluating the impact the standard will have on its Consolidated Financial Statements, the Company expects the standard will result in an earlier recognition of credit losses and an increase in the allowance for credit losses. The magnitude of the increase in the Company’s allowance for loan losses at the adoption date will be dependent upon the nature of the characteristics of the portfolio at the adoption date, as well as macroeconomic conditions and forecasts at that date.</li> </ul>

# CITIZENS FINANCIAL GROUP, INC.

## NOTE 2 - CASH AND DUE FROM BANKS

For the purposes of reporting cash flows, cash and cash equivalents have original maturities of three months or less and include cash and due from banks and interest-bearing cash and due from banks, primarily at the FRB.

The Company's subsidiary banks maintain certain average reserve balances and compensating balances for check clearing and other services with the FRB. At December 31, 2017 and 2016, the balance of deposits at the FRB amounted to \$2.0 billion and \$2.7 billion, respectively. Average balances maintained with the FRB during the years ended December 31, 2017, 2016, and 2015 exceeded amounts required by law for the FRB's requirements. All amounts, both required and excess reserves, held at the FRB currently earn interest at a fixed rate of 150 basis points. The Company recorded interest income on FRB deposits of \$16 million, \$7 million, and \$4 million for the years ended December 31, 2017, 2016, and 2015, respectively, in interest-bearing deposits in banks in the Consolidated Statement of Operations.

## NOTE 3 - SECURITIES

Investments include debt and marketable equity securities and other investment securities. The Company classifies debt securities as AFS, HTM, or trading based on management's intent to hold to maturity at the time of purchase, and marketable equity securities as AFS or trading.

Securities that will be held for indefinite periods of time and may be sold in response to changes in interest rates, changes in prepayment risk, or other factors considered in managing the Company's asset/liability strategy are classified as AFS and reported at fair value, with unrealized gains and losses reported in OCI as a separate component of stockholders' equity, net of taxes. Gains and losses on the sales of securities are recognized in noninterest income and are computed using the specific identification method.

Debt securities for which the Company has the ability and intent to hold to maturity are classified as HTM. The securities are reported at amortized cost. Transfers of debt securities to the HTM classification are recognized at fair value at the date of transfer.

For debt securities classified as AFS or HTM, interest income is recorded on the accrual basis and is adjusted for the amortization of premiums and the accretion of discounts. Premiums and discounts on debt securities are amortized or accreted using the effective interest method over the estimated lives of the individual securities. The Company uses actual prepayment experience and estimates of future prepayments to determine the constant effective yield necessary to apply the effective interest method of income recognition. Estimates of future prepayments are based on the underlying collateral characteristics of each security and are derived from market sources. Judgment is involved in making determinations about prepayment expectations and in changing those expectations in response to changes in interest rates and macroeconomic conditions. The amortization of premiums and discounts associated with mortgage-backed securities may be significantly impacted by changes in prepayment assumptions.

Securities that are classified as trading are bought and held principally for the purpose of selling them in the near term and are carried at fair value, with changes in fair value recognized in earnings. When applicable, realized and unrealized gains and losses on such assets are reported in noninterest income in the Consolidated Statements of Operations.

Other investment securities are primarily composed of FHLB stock and FRB stock (which are carried at cost) and money market mutual fund investments held by the Company's broker-dealers (which are carried at fair value, with changes in fair value recognized in noninterest income). Other investment securities that are carried at cost are reviewed at least annually for impairment, with valuation adjustments recognized in noninterest income.

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

(in millions)	December 31, 2017				December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities Available for Sale</b>								
U.S. Treasury and other	\$12	\$—	\$—	\$12	\$30	\$—	\$—	\$30
State and political subdivisions	6	—	—	6	8	—	—	8
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	20,065	40	(277)	19,828	19,231	78	(264)	19,045
Other/non-agency	311	7	(7)	311	427	2	(28)	401
<b>Total mortgage-backed securities</b>	<b>20,376</b>	<b>47</b>	<b>(284)</b>	<b>20,139</b>	<b>19,658</b>	<b>80</b>	<b>(292)</b>	<b>19,446</b>
<b>Total debt securities available for sale</b>	<b>20,394</b>	<b>47</b>	<b>(284)</b>	<b>20,157</b>	<b>19,696</b>	<b>80</b>	<b>(292)</b>	<b>19,484</b>
Marketable equity securities	—	—	—	—	5	—	—	5
Other equity securities	—	—	—	—	12	—	—	12
<b>Total equity securities available for sale</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>17</b>	<b>—</b>	<b>—</b>	<b>17</b>
<b>Total securities available for sale</b>	<b>\$20,394</b>	<b>\$47</b>	<b>(\$284)</b>	<b>\$20,157</b>	<b>\$19,713</b>	<b>\$80</b>	<b>(\$292)</b>	<b>\$19,501</b>
<b>Securities Held to Maturity</b>								
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	\$3,853	\$7	(\$46)	\$3,814	\$4,126	\$12	(\$44)	\$4,094
Other/non-agency	832	22	—	854	945	19	—	964
<b>Total securities held to maturity</b>	<b>\$4,685</b>	<b>\$29</b>	<b>(\$46)</b>	<b>\$4,668</b>	<b>\$5,071</b>	<b>\$31</b>	<b>(\$44)</b>	<b>\$5,058</b>
<b>Other Investment Securities, at Fair Value</b>								
Money market mutual fund	\$165	\$—	\$—	\$165	\$91	\$—	\$—	\$91
Other investments	4	—	—	4	5	—	—	5
<b>Total other investment securities, at fair value</b>	<b>\$169</b>	<b>\$—</b>	<b>\$—</b>	<b>\$169</b>	<b>\$96</b>	<b>\$—</b>	<b>\$—</b>	<b>\$96</b>
<b>Other Investment Securities, at Cost</b>								
Federal Reserve Bank stock	\$463	\$—	\$—	\$463	\$463	\$—	\$—	\$463
Federal Home Loan Bank stock	252	—	—	252	479	—	—	479
Other equity securities	7	—	—	7	—	—	—	—
<b>Total other investment securities, at cost</b>	<b>\$722</b>	<b>\$—</b>	<b>\$—</b>	<b>\$722</b>	<b>\$942</b>	<b>\$—</b>	<b>\$—</b>	<b>\$942</b>

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

(in millions)	Distribution of Maturities				Total
	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	
<b>Amortized Cost:</b>					
<b>Debt securities available for sale</b>					
U.S. Treasury and other	\$12	\$—	\$—	\$—	\$12
State and political subdivisions	—	—	—	6	6
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	261	1,067	18,737	20,065
Other/non-agency	1	21	—	289	311
<b>Total debt securities available for sale</b>	<b>13</b>	<b>282</b>	<b>1,067</b>	<b>19,032</b>	<b>20,394</b>
<b>Debt securities held to maturity:</b>					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	3,853	3,853
Other/non-agency	—	—	—	832	832
<b>Total debt securities held to maturity</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,685</b>	<b>4,685</b>
<b>Total amortized cost of debt securities</b>	<b>\$13</b>	<b>\$282</b>	<b>\$1,067</b>	<b>\$23,717</b>	<b>\$25,079</b>
<b>Fair Value:</b>					
<b>Debt securities available for sale</b>					
U.S. Treasury and other	\$12	\$—	\$—	\$—	\$12
State and political subdivisions	—	—	—	6	6
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	261	1,071	18,496	19,828
Other/non-agency	1	21	—	289	311
<b>Total debt securities available for sale</b>	<b>13</b>	<b>282</b>	<b>1,071</b>	<b>18,791</b>	<b>20,157</b>
<b>Debt securities held to maturity</b>					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	3,814	3,814
Other/non-agency	—	—	—	854	854
<b>Total debt securities held to maturity</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,668</b>	<b>4,668</b>
<b>Total fair value of debt securities</b>	<b>\$13</b>	<b>\$282</b>	<b>\$1,071</b>	<b>\$23,459</b>	<b>\$24,825</b>

Taxable interest income from investment securities as presented on the Consolidated Statements of Operations was \$625 million, \$584 million and \$621 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Realized gains and losses on securities are presented below:

(in millions)	Year Ended December 31,		
	2017	2016	2015
Gains on sale of debt securities	\$11	\$18	\$41
Losses on sale of debt securities	—	(2)	(12)
<b>Debt securities gains, net</b>	<b>\$11</b>	<b>\$16</b>	<b>\$29</b>
Equity securities gains	\$1	\$3	\$3

In advance of the July 2017 Volcker Rule's effective date, during the year ended December 31, 2015, the Company sold a \$73 million mortgage-backed security that was classified as HTM, which would have been prohibited under the Volcker Rule, and recognized a \$2 million gain.

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

(in millions)	December 31, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pledged against repurchase agreements	\$358	\$357	\$631	\$620
Pledged against FHLB borrowed funds	839	861	953	972
Pledged against derivatives, to qualify for fiduciary powers, and to secure public and other deposits as required by law	3,113	3,082	3,575	3,563

The Company regularly enters into security repurchase agreements with unrelated counterparties. Repurchase agreements are financial transactions that involve the transfer of a security from one party to another and a subsequent transfer of substantially the same security back to the original party. The Company's repurchase agreements are typically short-term transactions, but they may be extended to longer terms to maturity. Such transactions are accounted for as secured borrowed funds on the Company's Consolidated Balance Sheets. When permitted by GAAP, the Company offsets short-term receivables associated with its reverse repurchase agreements against short-term payables associated with its repurchase agreements. The Company recognized no offsetting of short-term receivables or payables as of December 31, 2017 or 2016. The Company offsets certain derivative assets and derivative liabilities on the Consolidated Balance Sheets. For further information see Note 13 "Derivatives."

Securitizations of mortgage loans retained in the investment portfolio for the years ended December 31, 2017, 2016 and 2015, were \$134 million, \$68 million and \$3 million, respectively. These securitizations included a substantive guarantee by third parties. In 2017, the guarantors were Fannie Mae, Freddie Mac, and Ginnie Mae. In 2016, the guarantors were Fannie Mae and Ginnie Mae. In 2015, the guarantor was Freddie Mac. These securitizations were accounted for as a sale of the transferred loans and as a purchase of securities. The securities received from the guarantors are classified as AFS.

**Impairment**

The Company reviews its securities for other-than-temporary impairment on a quarterly basis or more frequently if a potential loss triggering event occurs. The initial indicator of other-than-temporary impairment for both debt and equity securities is a decline in fair value below its recorded investment amount, as well as the severity and duration of the decline. For a security of which there has been a decline in fair value below the cost basis, the Company recognizes other-than-temporary impairment if (i) management has the intent to sell the security, (ii) it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, or (iii) the Company does not expect to recover the entire cost basis of the security.

Estimating the recovery of the amortized cost basis of a debt security is based upon an assessment of the cash flows expected to be collected. If the present value of cash flows expected to be collected, discounted at the security's original effective yield, is less than amortized cost, other-than-temporary impairment is considered to have occurred. In addition to these cash flow projections, several other characteristics of each debt security are reviewed when determining whether a credit loss exists and the period over which the debt security is expected to recover. These characteristics include: (i) the type of investment, (ii) various market factors affecting the fair value of the security (e.g., interest rates, spread levels, liquidity in the sector, etc.), (iii) the length and severity of impairment, and (iv) the public credit rating of the instrument.

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

If the Company intends to sell an impaired security, or if it is more likely than not it will be required to sell the security before recovery, the impairment loss recognized in current period earnings equals the difference between the amortized cost basis and the fair value of the security. If the Company does not intend to sell the impaired security, and it is not likely that the Company will be required to sell the impaired security, the other-than-temporary impairment write-down is separated into an amount representing the credit loss, which is recognized in current period earnings and the amount related to all other factors, is recognized in OCI.

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The following table presents the net securities impairment losses recognized in earnings:

(in millions)	Year Ended December 31,		
	2017	2016	2015
<b>Other-than-temporary impairment:</b>			
Total other-than-temporary impairment losses	(\$7)	(\$39)	(\$43)
Portions of loss recognized in other comprehensive income (before taxes)	—	27	36
<b>Net securities impairment losses recognized in earnings</b>	<b>(\$7)</b>	<b>(\$12)</b>	<b>(\$7)</b>

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

(dollars in millions)	December 31, 2017								
	Less than 12 Months			12 Months or Longer			Total		
	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses
<b>Mortgage-backed securities:</b>									
Federal agencies and U.S. government sponsored entities	294	\$10,163	(\$97)	152	\$8,061	(\$226)	446	\$18,224	(\$323)
Other/non-agency	6	55	(1)	10	84	(6)	16	139	(7)
<b>Total mortgage-backed securities</b>	<b>300</b>	<b>10,218</b>	<b>(98)</b>	<b>162</b>	<b>8,145</b>	<b>(232)</b>	<b>462</b>	<b>18,363</b>	<b>(330)</b>
<b>Total</b>	<b>300</b>	<b>\$10,218</b>	<b>(\$98)</b>	<b>162</b>	<b>\$8,145</b>	<b>(\$232)</b>	<b>462</b>	<b>\$18,363</b>	<b>(\$330)</b>

(dollars in millions)	December 31, 2016								
	Less than 12 Months			12 Months or Longer			Total		
	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses
State and political subdivisions	1	\$8	\$—	—	\$—	\$—	1	\$8	\$—
<b>Mortgage-backed securities:</b>									
Federal agencies and U.S. government sponsored entities	323	15,387	(292)	25	461	(16)	348	15,848	(308)
Other/non-agency	4	8	—	20	302	(28)	24	310	(28)
<b>Total mortgage-backed securities</b>	<b>327</b>	<b>15,395</b>	<b>(292)</b>	<b>45</b>	<b>763</b>	<b>(44)</b>	<b>372</b>	<b>16,158</b>	<b>(336)</b>
<b>Total</b>	<b>328</b>	<b>\$15,403</b>	<b>(\$292)</b>	<b>45</b>	<b>\$763</b>	<b>(\$44)</b>	<b>373</b>	<b>\$16,166</b>	<b>(\$336)</b>

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

(in millions)	Year Ended December 31,		
	2017	2016	2015
Cumulative balance at beginning of period	\$75	\$66	\$62
Credit impairments recognized in earnings on securities that have been previously impaired	7	12	7
Reductions due to increases in cash flow expectations on impaired securities (1)	(2)	(3)	(3)
Cumulative balance at end of period	\$80	\$75	\$66

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

Cumulative credit losses recognized in earnings for impaired AFS debt securities held as of December 31, 2017, 2016 and 2015 were \$80 million, \$75 million and \$66 million, respectively. There were no credit losses recognized in earnings for the Company's HTM portfolio as of December 31, 2017, 2016 and 2015.

For the years ended December 31, 2017, 2016 and 2015, the Company incurred non-agency MBS credit related other-than-temporary impairment losses in earnings of \$7 million, \$12 million and \$7 million, respectively. Other-than-temporary impairment losses for the year ended December 31, 2016 included the \$5 million impact of a one-time adjustment from a new model implementation. This adjustment was the result of the Company migrating in June 2016 from a proprietary internal process to a vendor-based model to estimate other-than-temporary impairment.

There were no credit impaired debt securities sold during the years ended December 31, 2017, 2016 and 2015, respectively. The Company does not currently have the intent to sell these debt securities, and it is not more likely than not that the Company will be required to sell these debt securities prior to the recovery of their amortized cost bases.

The Company has determined that credit losses are not expected to be incurred on the remaining agency and non-agency MBS identified with unrealized losses as of December 31, 2017. The unrealized losses on these debt securities reflect non-credit-related factors such as changing interest rates and market liquidity. Therefore, the Company has determined that these debt securities are not other-than-temporarily impaired because the Company does not currently have the intent to sell these debt securities, and it is not more likely than not that the Company will be required to sell these debt securities prior to the recovery of their amortized cost bases. Any subsequent increases in the valuation of impaired debt securities do not impact their recorded cost bases. Additionally, as of December 31, 2017, there were no pre-tax non-credit related losses deferred in AOCI and there were \$27 million and \$36 million for the years ended December 31, 2016 and 2015, respectively.

**NOTE 4 - LOANS AND LEASES**

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

Interest income on loans is determined using the effective interest method. This method calculates periodic interest income at a constant effective yield on the net investment in the loan, to provide a constant rate of return over the term. Loans accounted for using the fair value option, are measured at fair value with corresponding changes recognized in noninterest income.

Loan commitment fees for loans that are likely to be drawn down, and other credit related fees, are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate over the loan term. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight-line basis.

Leases are classified at the inception of the lease. Direct financing lease receivables are reported at the aggregate of minimum lease payments receivable plus the estimated residual value of the leased property, less unearned and deferred income, including unamortized investment credits. Leveraged leases, which are a form of

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direct financing leases, are recorded net of related non-recourse debt. Lease residual values are reviewed at least annually for other-than-temporary impairment; with valuation adjustments recognized currently against other income for direct financing and leveraged leases. Unearned income is recognized as a constant percentage of outstanding lease financing balances over the lease term in interest income.

Loans and leases are disclosed in portfolio segments and classes. The Company's loan and lease portfolio segments are commercial and retail. The classes of loans and leases are: commercial, commercial real estate, leases, residential mortgages, home equity loans, home equity lines of credit, home equity loans serviced by others, home equity lines of credit serviced by others, automobile, education, credit cards and other retail. The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others, which the Company now services a portion of internally.

A summary of the loans and leases portfolio is presented below:

(in millions)	December 31,	
	2017	2016
Commercial	\$37,562	\$37,274
Commercial real estate	11,308	10,624
Leases	3,161	3,753
Total commercial loans and leases	52,031	51,651
Residential mortgages	17,045	15,115
Home equity loans	1,392	1,858
Home equity lines of credit	13,483	14,100
Home equity loans serviced by others	542	750
Home equity lines of credit serviced by others	149	219
Automobile	13,204	13,938
Education (1)	8,134	6,610
Credit cards	1,848	1,691
Other retail	2,789	1,737
Total retail loans	58,586	56,018
<b>Total loans and leases (2)(3)</b>	<b>\$110,617</b>	<b>\$107,669</b>

(1) During first quarter 2017, student loans were renamed "education" loans. Refer to Note 1 "Significant Accountant Policies" for more information.

(2) Excluded from the table above are loans held for sale totaling \$718 million and \$625 million as of December 31, 2017 and 2016, respectively.

(3) Mortgage loans serviced for others by the Company's subsidiaries are not included above, and amounted to \$20.3 billion and \$17.3 billion at December 31, 2017 and 2016, respectively.

Loans are classified upon origination or acquisition as either held-for-investment or held-for-sale. This classification is based on management's initial intent and ability to hold the loans for the foreseeable future. Loans held for sale are carried at the lower of cost or fair value, with any write-downs or subsequent recoveries charged to other income. The Company accounts for certain loans held for sale, including those loans associated with its mortgage banking business and secondary loan trading desk, under the fair value option at fair value. Refer to Note 19, "Fair Value Measurements" for additional discussion.

The following tables present balances of loan purchases and sales:

(in millions)	Year Ended December 31, 2017					
	Education	Automobile	Residential mortgages	Home equity loans	Commercial	Total
Purchases	\$862	\$153	\$—	\$—	\$—	\$1,015
Sales	—	—	254	29	603	886

(in millions)	Year Ended December 31, 2016					
	Education	Automobile	Residential mortgages	Home equity loans	Commercial	Total
Purchases	\$1,224	\$695	\$539	\$—	\$—	\$2,458
Sales	—	—	699	55	147	901

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Reflected in the previous table are retail TDR sales during the year ended December 31, 2017 of \$78 million, including \$49 million of residential mortgages and \$29 million of home equity loans, which resulted in a pre-tax gain of \$17 million reported in other income on the Consolidated Statements of Operations. Also reflected in the previous table are \$6 million of commercial TDR sales during the year ended December 31, 2017. During the year ended December 31, 2016, the Company sold \$310 million of TDRs, including \$255 million of residential mortgages and \$55 million of home equity loans, which resulted in a pre-tax gain of \$72 million reported in other income on the Consolidated Statements of Operations.

Loans held for sale at fair value totaled \$497 million and \$583 million at December 31, 2017 and 2016, respectively, and consisted of residential mortgages originated for sale of \$326 million and loans in the commercial trading portfolio of \$171 million as of December 31, 2017. As of December 31, 2016, of the \$583 million, residential mortgages originated for sale were \$504 million and loans in the commercial trading portfolio totaled \$79 million. Other loans held for sale totaled \$221 million and \$42 million as of December 31, 2017 and 2016, respectively, and consisted of commercial loan syndications.

Loans pledged as collateral for FHLB borrowed funds, primarily residential mortgages and home equity loans, totaled \$24.9 billion and \$24.0 billion at December 31, 2017 and 2016, respectively. Loans pledged as collateral to support the contingent ability to borrow at the FRB discount window, if necessary, was primarily comprised of auto and commercial loans, and totaled \$18.1 billion and \$16.8 billion at December 31, 2017 and 2016, respectively.

The Company is engaged in the leasing of equipment for commercial use, with primary lease concentrations to Fortune 1000 companies for large capital equipment acquisitions. A lessee is evaluated from a credit perspective using the same underwriting standards and procedures as for a loan borrower. A lessee is expected to make rental payments based on its cash flows and the viability of its operations. Leases are usually not evaluated as collateral-based transactions, and therefore the lessee's overall financial strength is the most important credit evaluation factor.

A summary of the investment in leases, before the ALLL, is presented below:

(in millions)	December 31,	
	2017	2016
Direct financing leases	\$3,122	\$3,670
Leveraged leases	39	83
<b>Total leases</b>	<b>\$3,161</b>	<b>\$3,753</b>

The components of the investment in leases, before the ALLL, are presented below:

(in millions)	December 31,	
	2017	2016
Total future minimum lease rentals	\$2,347	\$2,922
Estimated residual value of leased equipment (non-guaranteed)	1,072	1,166
Initial direct costs	15	20
Unearned income on minimum lease rentals and estimated residual value of leased equipment	(273)	(355)
<b>Total leases</b>	<b>\$3,161</b>	<b>\$3,753</b>

The future minimum lease rentals on direct financing and leveraged leases at December 31, 2017 are presented below:

Year	(in millions)
2018	\$602
2019	553
2020	399
2021	300
2022	201
Thereafter	292
<b>Total</b>	<b>\$2,347</b>

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**NOTE 5 - ALLOWANCE FOR CREDIT LOSSES, NONPERFORMING ASSETS, AND CONCENTRATIONS OF CREDIT RISK**

***Allowance for Credit Losses***

Management's estimate of probable losses in the Company's loan and lease portfolios is recorded in the ALLL and the reserve for unfunded lending commitments. On a quarterly basis, the Company evaluates the adequacy of the ALLL by performing reviews of certain individual loans and leases, analyzing changes in the composition, size and delinquency of the portfolio, reviewing previous loss experience and considering current and anticipated economic factors. The ALLL is established in accordance with the Company's credit reserve policies, as approved by the Audit Committee of the Board of Directors. The Chief Financial Officer and Chief Risk Officer review the adequacy of the ALLL each quarter, together with risk management. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for credit losses. The ALLL is maintained at a level that management considers reflective of probable losses, and is established through charges to earnings in the form of a provision for credit losses. The ALLL may be adjusted to reflect the Company's current assessment of various qualitative risks, factors and events that may not be measured in the statistical analysis. Such factors include trends in economic conditions, loan growth, back testing results, credit underwriting policy exceptions, regulatory and audit findings, and peer comparisons. Amounts determined to be uncollectible are deducted from the ALLL and subsequent recoveries, if any, are added to the ALLL. While management uses available information to estimate loan and lease losses, future additions to the ALLL may be necessary based on changes in economic conditions.

The evaluation of the adequacy of the commercial, commercial real estate, and lease ALLL and reserve for unfunded lending commitments is primarily based on risk rating models that assess probability of default, loss given default and exposure at default on an individual loan basis. The models are primarily driven by individual customer financial characteristics and are validated against historical experience. Additionally, qualitative factors may be included in the risk rating models. After the aggregation of individual borrower incurred loss, additional overlays can be made based on back-testing against historical losses.

For non-impaired retail loans, the ALLL is based upon an incurred loss model utilizing the probability of default, loss given default and exposure at default on an individual loan basis. When developing these factors, the Company may consider the loan product and collateral type, delinquency status, LTV ratio, lien position, borrower's credit, age of the loan, geographic location and incurred loss period. Certain retail portfolios, including SBO home equity loans and commercial credit card receivables utilize roll rate models to estimate the ALLL. For the portfolios measured using the incurred loss model, roll rate models are also run as challenger models and can be used to support management overlays if deemed necessary.

For nonaccruing commercial and commercial real estate loans with an outstanding balance of \$3 million or greater and for all commercial and commercial real estate TDRs (regardless of size), the Company conducts further analysis to determine the probable amount of loss and establishes a specific allowance for the loan, if appropriate. The Company estimates the impairment amount by comparing the loan's carrying amount to the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan's observable market price. For collateral-dependent impaired commercial and commercial real estate loans, the excess of the Company's recorded investment in the loan over the fair value of the collateral, less cost to sell, is charged off to the ALLL.

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

In addition to the ALLL, the Company also estimates probable credit losses associated with off balance sheet financial instruments such as standby letters of credit, financial guarantees and binding unfunded loan commitments. Off balance sheet financial instruments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk rating scale. These risk classifications, in conjunction with historical loss experience, economic conditions and performance trends within specific portfolio segments, result in the estimate of the reserve for unfunded lending commitments.

The ALLL and the reserve for unfunded lending commitments are reported on the Consolidated Balance Sheets in the allowance for loan and lease losses and in other liabilities, respectively. Provision for credit losses related to the loans and leases portfolio and the unfunded lending commitments are reported in the Consolidated Statements of Operations as provision for credit losses.

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As of December 31, 2017, the Company enhanced the method for assessing various qualitative risks, factors and events that may not be measured in the modeled results. The new methodology includes a statistical analysis of prior charge-off rates on a historical basis combined with a qualitative assessment based on quantitative measures affecting the determination of incurred losses in the loan and lease portfolio, and provides better alignment of the qualitative ALLL to the commercial and retail loan portfolios. The impact of the change is an increase of approximately \$50 million to the commercial ALLL with a corresponding decrease to the retail ALLL; there was not a significant impact on the total qualitative ALLL as of December 31, 2017. There were no other material changes in assumptions or estimation techniques compared with prior years that impacted the determination of the current year's ALLL and the reserve for unfunded lending commitments.

**Loan Charge-Offs**

Commercial loans are charged off when it is highly certain that a loss has been realized, including situations where a loan is determined to be both impaired and collateral-dependent. The determination of whether to recognize a charge-off involves many factors, including the prioritization of the Company's claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower's equity or the loan collateral.

Retail loans are generally fully charged-off or written down to the net realizable value of the underlying collateral, with an offset to the ALLL, upon reaching specified stages of delinquency in accordance with standards established by the FFIEC. Residential real estate loans, credit card loans and unsecured open end loans are generally charged off in the month in which the account becomes 180 days past due. Auto loans, education loans and unsecured closed end loans are generally charged off in the month in which the account becomes 120 days past due. Certain retail loans will be charged off earlier than the FFIEC standards in the following circumstances:

- A charge-off is recognized when a loan is modified in a TDR if the loan is determined to be collateral-dependent. A loan is considered to be collateral-dependent when repayment of the loan is expected to be provided solely by the underlying collateral, rather than by cash flows from the borrower's operations, income or other resources.
- Loans to borrowers who have experienced an event (e.g. bankruptcy) that suggests a loss is either known or highly certain are subject to accelerated charge-off standards. Residential real estate and auto loans are charged down to the net realizable value when the loan becomes 60 days past due, or sooner if the loan is determined to be collateral-dependent. Credit card loans are fully charged off within 60 days of receiving notification of the bankruptcy filing or other event. Education loans are generally charged off when the loan becomes 60 days past due after receiving notification of a bankruptcy.
- Auto loans are written down to net realizable value upon repossession of the collateral.

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

(in millions)	Year Ended December 31, 2017		
	Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	\$663	\$573	\$1,236
Charge-offs	(75)	(437)	(512)
Recoveries	40	167	207
Net charge-offs	(35)	(270)	(305)
Provision charged to income <sup>(1)</sup>	57	248	305
Allowance for loan and lease losses, end of period	685	551	1,236
Reserve for unfunded lending commitments, beginning of period	72	—	72
Provision for unfunded lending commitments	16	—	16
Reserve for unfunded lending commitments, end of period	88	—	88
<b>Total allowance for credit losses, end of period</b>	<b>\$773</b>	<b>\$551</b>	<b>\$1,324</b>

<sup>(1)</sup> Includes an increase of approximately \$50 million to commercial and corresponding decrease to retail for the impact of the enhancement to the assessment of qualitative risks, factors and events that may not be measured in the modeled results.

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(in millions)	Year Ended December 31, 2016		
	Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	\$596	\$620	\$1,216
Charge-offs	(79)	(457)	(536)
Recoveries	33	168	201
Net charge-offs	(46)	(289)	(335)
Provision charged to income	113	242	355
Allowance for loan and lease losses, end of period	663	573	1,236
Reserve for unfunded lending commitments, beginning of period	58	—	58
Provision for unfunded lending commitments	14	—	14
Reserve for unfunded lending commitments, end of period	72	—	72
Total allowance for credit losses, end of period	\$735	\$573	\$1,308

(in millions)	Year Ended December 31, 2015		
	Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	\$544	\$651	\$1,195
Charge-offs	(36)	(444)	(480)
Recoveries	49	147	196
Net recoveries (charge-offs)	13	(297)	(284)
Provision charged to income	39	266	305
Allowance for loan and lease losses, end of period	596	620	1,216
Reserve for unfunded lending commitments, beginning of period	61	—	61
Provision (credit) for unfunded lending commitments	(3)	—	(3)
Reserve for unfunded lending commitments as of period end	58	—	58
Total allowance for credit losses as of period end	\$654	\$620	\$1,274

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

(in millions)	December 31, 2017			December 31, 2016		
	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	\$370	\$761	\$1,131	\$424	\$799	\$1,223
Formula-based evaluation	51,661	57,825	109,486	51,227	55,219	106,446
Total	\$52,031	\$58,586	\$110,617	\$51,651	\$56,018	\$107,669

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

(in millions)	December 31, 2017			December 31, 2016		
	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	\$47	\$34	\$81	\$63	\$43	\$106
Formula-based evaluation	726	517	1,243	672	530	1,202
Allowance for credit losses	\$773	\$551	\$1,324	\$735	\$573	\$1,308

For commercial loans and leases, the Company utilizes regulatory classification ratings to monitor credit quality. Loans with a "pass" rating are those that the Company believes will be fully repaid in accordance with the contractual loan terms. Commercial loans and leases that are "criticized" are those that have some weakness or potential weakness that indicate an increased probability of future loss. "Criticized" loans are grouped into three categories, "special mention," "substandard" and "doubtful." Special mention loans have potential weaknesses that, if left uncorrected, may result in deterioration of the Company's credit position at some future date. Substandard loans are inadequately protected loans; these loans have well-defined weaknesses that could hinder normal repayment or collection of the debt. Doubtful loans have the same weaknesses as substandard, with the added characteristics that the possibility of loss is high and collection of the full amount of the loan is improbable. For retail loans, the Company primarily uses the loan's payment and delinquency status to monitor credit quality.

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The further a loan is past due, the greater the likelihood of future credit loss. These credit quality indicators for both commercial and retail loans are continually updated and monitored.

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

(in millions)	December 31, 2017				
	Criticized				Total
	Pass	Special Mention	Substandard	Doubtful	
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
<b>Total commercial loans and leases</b>	<b>\$49,205</b>	<b>\$1,716</b>	<b>\$878</b>	<b>\$232</b>	<b>\$52,031</b>

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

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

(in millions)	December 31, 2017					Total
	Days Past Due					
	Current	1-29	30-59	60-89	90 or More	
Residential mortgages	\$16,714	\$147	\$46	\$18	\$120	\$17,045
Home equity loans	1,212	102	20	4	54	1,392
Home equity lines of credit	12,756	438	78	23	188	13,483
Home equity loans serviced by others	477	29	10	4	22	542
Home equity lines of credit serviced by others	116	21	4	1	7	149
Automobile	11,596	1,273	220	55	60	13,204
Education	7,898	160	23	12	41	8,134
Credit cards	1,747	63	12	9	17	1,848
Other retail	2,679	68	20	12	10	2,789
<b>Total retail loans</b>	<b>\$55,195</b>	<b>\$2,301</b>	<b>\$433</b>	<b>\$138</b>	<b>\$519</b>	<b>\$58,586</b>

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

**Nonperforming Assets**

Nonperforming loans and leases are those on which accrual of interest has been suspended. Loans (other than certain retail loans insured by U.S. government agencies) are placed on nonaccrual status and considered nonperforming when full payment of principal and interest is in doubt, unless the loan is both well secured and in the process of collection.

When the Company places a loan on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income and amortization of any net deferred fees is suspended. Interest collections on nonaccruing loans and leases for which the ultimate collectability of principal is uncertain are generally applied to first reduce the carrying value of the loan. Otherwise, interest income may be recognized to the extent of the cash received. A loan may be returned to accrual status if (i) principal and interest payments have been brought current, and the Company expects repayment of the remaining contractual principal and interest, (ii) the loan or lease has otherwise become well-secured and in the process of collection, or (iii) the borrower has been making regularly scheduled payments in full for the prior six months and the Company is reasonably assured that the loan or lease will be brought fully current within a reasonable period.

Commercial loans, commercial real estate loans, and leases are generally placed on nonaccrual status when contractually past due 90 days or more, or earlier if management believes that the probability of collection is insufficient to warrant further accrual. Some of these loans and leases may remain on accrual status when contractually past due 90 days or more if management considers the loan collectible.

Residential mortgages are generally placed on nonaccrual status when past due 120 days, or sooner if determined to be collateral-dependent, unless repayment of the loan is insured by the Federal Housing Administration. Credit card balances are placed on nonaccrual status when past due 90 days or more and are restored to accruing status if they subsequently become less than 90 days past due. All other retail loans are generally placed on nonaccrual status when past due 90 days or more, or earlier if management believes that the probability of collection is insufficient to warrant further accrual. Loans less than 90 days past due may be placed on nonaccrual status upon the death of the borrower, fraud or bankruptcy.

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

(in millions)	Nonperforming <sup>(1)</sup>		Accruing and 90 days or more past due	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Commercial	\$238	\$322	\$5	\$2
Commercial real estate	27	50	3	—
Leases	—	15	—	—
Total commercial loans and leases	265	387	8	2
Residential mortgages <sup>(1)</sup>	128	144	16	18
Home equity loans	72	98	—	—
Home equity lines of credit	233	243	—	—
Home equity loans serviced by others	25	32	—	—
Home equity lines of credit serviced by others	18	33	—	—
Automobile	70	50	—	—
Education	38	38	3	5
Credit card	17	16	—	—
Other retail	5	4	5	1
Total retail loans	606	658	24	24
<b>Total</b>	<b>\$871</b>	<b>\$1,045</b>	<b>\$32</b>	<b>\$26</b>

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

Other nonperforming assets consisted primarily of other real estate owned and was presented in other assets on the Consolidated Balance Sheets. Other real estate owned, net of valuation allowance, was \$36 million and \$49 million as of December 31, 2017 and 2016, respectively.

A summary of key performance indicators is presented below:

	December 31,	
	2017	2016
Nonperforming commercial loans and leases as a percentage of total loans and leases	0.24%	0.36%
Nonperforming retail loans as a percentage of total loans and leases	0.55	0.61
Total nonperforming loans and leases as a percentage of total loans and leases	0.79%	0.97%
Nonperforming commercial assets as a percentage of total assets	0.17%	0.26%
Nonperforming retail assets as a percentage of total assets	0.43	0.47
Total nonperforming assets as a percentage of total assets	0.60%	0.73%

The recorded investment in mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings are in process was \$181 million and \$177 million as of December 31, 2017 and 2016, respectively.

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

(in millions)	December 31, 2017				December 31, 2016			
	Days Past Due				Days Past Due			
	30-59	60-89	90 or More	Total	30-59	60-89	90 or More	Total
Commercial	\$26	\$4	\$243	\$273	\$36	\$4	\$324	\$364
Commercial real estate	38	20	30	88	1	2	50	53
Leases	4	1	—	5	1	—	15	16
Total commercial loans and leases	68	25	273	366	38	6	389	433
Residential mortgages	46	18	120	184	53	12	135	200
Home equity loans	20	4	54	78	23	7	73	103
Home equity lines of credit	78	23	188	289	57	20	195	272
Home equity loans serviced by others	10	4	22	36	14	5	17	36
Home equity lines of credit serviced by others	4	1	7	12	3	2	31	36
Automobile	220	55	60	335	172	38	42	252
Education	23	12	41	76	24	13	43	80
Credit cards	12	9	17	38	12	9	16	37
Other retail	20	12	10	42	8	4	4	16
Total retail loans	433	138	519	1,090	366	110	556	1,032
<b>Total</b>	<b>\$501</b>	<b>\$163</b>	<b>\$792</b>	<b>\$1,456</b>	<b>\$404</b>	<b>\$116</b>	<b>\$945</b>	<b>\$1,465</b>

**Impaired Loans**

A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all of the contractual interest and principal payments as scheduled in the loan agreement. This evaluation is generally based on delinquency information, an assessment of the borrower's financial condition and the adequacy of collateral, if any. Impaired loans include nonaccruing larger balance (greater than \$3 million carrying value), non-homogeneous commercial and commercial real estate loans, and restructured loans that are deemed TDRs.

When a loan is identified as impaired, the impairment is measured on an individual loan level as the difference between the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount) and the present value of expected future cash flows, discounted at the loan's effective interest rate. When collateral is the sole source of repayment for the impaired loan, rather than the borrower's income or other sources of repayment, the Company charges down the loan to its net realizable value.

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A summary of impaired loans by class is presented below:

(in millions)	December 31, 2017				
	Impaired Loans With a Related Allowance	Allowance on Impaired Loans	Impaired Loans Without a Related Allowance	Unpaid Contractual Balance	Total Recorded Investment in Impaired Loans
Commercial	\$183	\$42	\$159	\$403	\$342
Commercial real estate	25	5	3	40	28
Leases	—	—	—	—	—
Total commercial loans and leases	208	47	162	443	370
Residential mortgages	25	2	126	197	151
Home equity loans	41	4	80	162	121
Home equity lines of credit	16	1	181	241	197
Home equity loans serviced by others	29	2	22	67	51
Home equity lines of credit serviced by others	2	—	7	14	9
Automobile	2	—	21	30	23
Education	154	17	21	175	175
Credit cards	24	7	1	25	25
Other retail	5	1	4	10	9
Total retail loans	298	34	463	921	761
<b>Total</b>	<b>\$506</b>	<b>\$81</b>	<b>\$625</b>	<b>\$1,364</b>	<b>\$1,131</b>

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

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Additional information on impaired loans is presented below:

(in millions)	Year Ended December 31,					
	2017		2016		2015	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
Commercial	\$4	\$380	\$5	\$295	\$4	\$135
Commercial real estate	—	37	—	53	1	44
Leases	—	—	—	3	—	—
Total commercial loans and leases	4	417	5	351	5	179
Residential mortgages	4	136	4	161	15	415
Home equity loans	6	121	7	144	9	222
Home equity lines of credit	6	176	6	178	4	173
Home equity loans serviced by others	3	49	3	60	4	75
Home equity lines of credit serviced by others	—	9	—	9	—	9
Automobile	1	18	—	14	—	11
Education	9	173	7	150	7	157
Credit cards	2	22	2	23	2	26
Other retail	—	9	1	12	1	16
Total retail loans	31	713	30	751	42	1,104
<b>Total</b>	<b>\$35</b>	<b>\$1,130</b>	<b>\$35</b>	<b>\$1,102</b>	<b>\$47</b>	<b>\$1,283</b>

***Troubled Debt Restructurings***

In situations where, for economic or legal reasons related to the borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider, the related loan is classified as a TDR. TDRs typically result from the Company's loss mitigation efforts and are undertaken in order to improve the likelihood of recovery and continuity of the relationship. The Company's loan modifications are handled on a case-by-case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet the borrower's financial needs. Concessions granted in TDRs for all classes of loans may include lowering the interest rate, forgiving a portion of principal, extending the loan term, lowering scheduled payments for a specified period of time, waiving or delaying a scheduled payment of principal or interest for other than an insignificant time period, or capitalizing past due amounts. A rate increase can be a concession if the increased rate is lower than a market rate for debt with risk similar to that of the restructured loan. TDRs for commercial loans and leases may also involve creating a multiple note structure, accepting non-cash assets, accepting an equity interest, or receiving a performance-based fee. In some cases, a TDR may involve multiple concessions. The financial effects of TDRs for all loan classes may include lower income (either due to a lower interest rate or a delay in the timing of cash flows), larger loan loss provisions, and accelerated charge-offs if the modification renders the loan collateral-dependent. In some cases, interest income throughout the term of the loan may increase if, for example, the loan is extended or the interest rate is increased as a result of the restructuring.

Retail and commercial loans whose contractual terms have been modified in a TDR and are current at the time of restructuring may remain on accrual status if there is demonstrated performance prior to the restructuring and payment in full under the restructured terms is expected. Retail loans that were discharged in bankruptcy and not reaffirmed by the borrower are deemed to be collateral-dependent TDRs and are generally charged off to the fair value of the collateral, less cost to sell, and less amounts recoverable under a government guarantee (if any). Cash receipts on nonaccruing impaired loans, including nonaccruing loans involved in TDRs, are generally applied to reduce the unpaid principal balance. Certain TDRs that are current in payment status are classified as nonaccrual in accordance with regulatory guidance. Income on these loans is generally recognized on a cash basis if management believes that the remaining book value of the loan is realizable. Nonaccruing TDRs that meet the guidelines above for accrual status can be returned to accruing if supported by a well-documented evaluation of the borrowers' financial condition, and if they have been current for at least six months.

Because TDRs are impaired loans, the Company measures impairment by comparing the present value of expected future cash flows, or when appropriate, the fair value of collateral less costs to sell, to the loan's recorded investment. Any excess of recorded investment over the present value of expected future cash flows or collateral

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value is included in the ALLL. Any portion of the loan's recorded investment the Company does not expect to collect as a result of the modification is charged off at the time of modification. For Retail TDR accounts where the expected value of cash flows is utilized, any recorded investment in excess of the present value of expected cash flows is recognized by creating or increasing the ALLL. For Retail TDR accounts assessed based on the fair value of collateral, any portion of the loan's recorded investment in excess of the collateral value less costs to sell is charged off at the time of modification or at the time of subsequent and regularly recurring valuations.

The table below summarizes TDRs by class and total unfunded commitments:

(in millions)	December 31,	
	2017	2016
Commercial	\$129	\$120
Retail	761	799
Unfunded commitments tied to TDRs	39	42

The table below summarizes how loans were modified during the year ended December 31, 2017, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during 2017 and were paid off in full, charged off, or sold prior to December 31, 2017.

(dollars in millions)	Primary Modification Types					
	Interest Rate Reduction (1)			Maturity Extension (2)		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Commercial	7	\$1	\$1	45	\$22	\$22
Commercial real estate	—	—	—	1	—	—
Leases	—	—	—	—	—	—
Total commercial loans and leases	7	1	1	46	22	22
Residential mortgages	71	9	10	73	12	13
Home equity loans	82	5	6	1	—	—
Home equity lines of credit	50	3	3	235	30	30
Home equity loans serviced by others	15	1	1	—	—	—
Home equity lines of credit serviced by others	5	—	—	2	—	—
Automobile	130	2	2	29	1	1
Education	—	—	—	—	—	—
Credit cards	2,363	13	13	—	—	—
Other retail	1	—	—	—	—	—
Total retail loans	2,717	33	35	340	43	44
<b>Total</b>	<b>2,724</b>	<b>\$34</b>	<b>\$36</b>	<b>386</b>	<b>\$65</b>	<b>\$66</b>

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(dollars in millions)	Primary Modification Types				
	Other <sup>(3)</sup>				
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification
Commercial	15	\$70	\$71	(\$1)	\$—
Commercial real estate	1	—	—	—	—
Leases	—	—	—	—	—
Total commercial loans and leases	16	70	71	(1)	—
Residential mortgages	171	19	19	(1)	—
Home equity loans	232	13	13	—	—
Home equity lines of credit	395	27	27	—	1
Home equity loans serviced by others	52	2	2	—	—
Home equity lines of credit serviced by others	26	2	2	—	—
Automobile	1,336	24	20	—	4
Education	329	7	7	2	—
Credit cards	—	—	—	3	—
Other retail	5	—	—	(2)	—
Total retail loans	2,546	94	90	2	5
<b>Total</b>	<b>2,562</b>	<b>\$164</b>	<b>\$161</b>	<b>\$1</b>	<b>\$5</b>

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

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

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

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The table below summarizes how loans were modified during the year ended December 31, 2016, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during 2016 and were paid off in full, charged off, or sold prior to December 31, 2016.

	Primary Modification Types					
	Interest Rate Reduction (1)			Maturity Extension (2)		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(dollars in millions)						
Commercial	12	\$1	\$1	81	\$20	\$21
Commercial real estate	1	—	—	1	5	5
Leases	—	—	—	—	—	—
Total commercial loans and leases	13	1	1	82	25	26
Residential mortgages	71	10	10	60	10	10
Home equity loans	97	6	6	39	4	5
Home equity lines of credit	49	4	4	121	13	12
Home equity loans serviced by others	18	1	1	—	—	—
Home equity lines of credit serviced by others	8	—	—	5	1	1
Automobile	138	3	3	41	1	1
Education	—	—	—	—	—	—
Credit cards	2,187	12	12	—	—	—
Other retail	4	—	—	—	—	—
Total retail loans	2,572	36	36	266	29	29
<b>Total</b>	<b>2,585</b>	<b>\$37</b>	<b>\$37</b>	<b>348</b>	<b>\$54</b>	<b>\$55</b>

	Primary Modification Types					
	Other (3)			Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification	
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment			
(dollars in millions)						
Commercial	14	\$48	\$48	\$3	\$—	
Commercial real estate	—	—	—	—	—	
Leases	—	—	—	—	—	
Total commercial loans and leases	14	48	48	3	—	
Residential mortgages	247	26	26	(1)	—	
Home equity loans	279	18	17	(1)	—	
Home equity lines of credit	304	23	22	—	1	
Home equity loans serviced by others	60	2	2	—	—	
Home equity lines of credit serviced by others	24	1	1	—	—	
Automobile	1,081	20	18	—	3	
Education	479	12	12	4	—	
Credit cards	—	—	—	3	—	
Other retail	13	—	—	—	—	
Total retail loans	2,487	102	98	5	4	
<b>Total</b>	<b>2,501</b>	<b>\$150</b>	<b>\$146</b>	<b>\$8</b>	<b>\$4</b>	

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

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

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

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The table below summarizes how loans were modified during the year ended December 31, 2015, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during 2015 and were paid off in full, charged off, or sold prior to December 31, 2015.

	Primary Modification Types					
	Interest Rate Reduction (1)			Maturity Extension (2)		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(dollars in millions)						
Commercial	25	\$19	\$19	160	\$22	\$22
Commercial real estate	1	—	—	1	—	—
Leases	—	—	—	—	—	—
Total commercial loans and leases	26	19	19	161	22	22
Residential mortgages	153	31	31	40	7	6
Home equity loans	96	5	5	191	35	35
Home equity lines of credit	4	1	1	23	2	2
Home equity loans serviced by others	29	2	2	—	—	—
Home equity lines of credit serviced by others	2	—	—	1	—	—
Automobile	108	2	2	5	—	—
Education	—	—	—	—	—	—
Credit cards	2,413	13	13	—	—	—
Other retail	3	—	—	—	—	—
Total retail loans	2,808	54	54	260	44	43
<b>Total</b>	<b>2,834</b>	<b>\$73</b>	<b>\$73</b>	<b>421</b>	<b>\$66</b>	<b>\$65</b>

	Primary Modification Types				
	Other (3)			Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment		
(dollars in millions)					
Commercial	16	\$34	\$34	(\$1)	\$1
Commercial real estate	1	4	4	—	—
Leases	—	—	—	—	—
Total commercial loans and leases	17	38	38	(1)	1
Residential mortgages	275	33	33	(1)	—
Home equity loans	448	28	28	—	1
Home equity lines of credit	320	21	19	—	2
Home equity loans serviced by others	124	6	5	—	1
Home equity lines of credit serviced by others	41	3	2	—	—
Automobile	812	14	12	—	2
Education	1,204	22	22	4	—
Credit cards	—	—	—	2	—
Other retail	20	—	—	—	—
Total retail loans	3,244	127	121	5	6
<b>Total</b>	<b>3,261</b>	<b>\$165</b>	<b>\$159</b>	<b>\$4</b>	<b>\$7</b>

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

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

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

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The table below summarizes TDRs that defaulted within 12 months of their modification date during 2017, 2016 and 2015. For purposes of this table, a payment default refers to a loan that becomes 90 days or more past due under the modified terms. Amounts represent the loan's recorded investment at the time of payment default. Loan data includes loans meeting the criteria that were paid off in full, charged off, or sold prior to December 31, 2017 and 2016. If a TDR of any loan type becomes 90 days past due after being modified, the loan is written down to the fair value of collateral less cost to sell. The amount written off is charged to the ALLL.

(dollars in millions)	Year Ended December 31,					
	2017		2016		2015	
	Number of Contracts	Balance Defaulted	Number of Contracts	Balance Defaulted	Number of Contracts	Balance Defaulted
Commercial	8	\$5	22	\$13	23	\$2
Commercial real estate	1	4	1	—	—	—
Leases	—	—	—	—	—	—
Total commercial loans and leases	9	9	23	13	23	2
Residential mortgages	152	19	187	24	168	21
Home equity loans	43	2	50	3	184	13
Home equity lines of credit	200	14	155	13	131	7
Home equity loans serviced by others	23	—	37	1	43	1
Home equity lines of credit serviced by others	10	1	17	—	22	1
Automobile	140	1	110	2	87	1
Education	44	1	59	1	171	3
Credit cards	491	3	433	3	455	3
Other retail	4	—	3	—	4	—
Total retail loans	1,107	41	1,051	47	1,265	50
<b>Total</b>	<b>1,116</b>	<b>\$50</b>	<b>1,074</b>	<b>\$60</b>	<b>1,288</b>	<b>\$52</b>

**Concentrations of Credit Risk**

Most of the Company's lending activity is with customers located in the New England, Mid-Atlantic and Midwest regions. Generally, loans are collateralized by assets including real estate, inventory, accounts receivable, other personal property and investment securities. As of December 31, 2017 and 2016, the Company had a significant amount of loans collateralized by residential and commercial real estate. There were no significant concentration risks within the commercial loan or retail loan portfolios. Exposure to credit losses arising from lending transactions may fluctuate with fair values of collateral supporting loans, which may not perform according to contractual agreements. The Company's policy is to collateralize loans to the extent necessary; however, unsecured loans are also granted on the basis of the financial strength of the applicant and the facts surrounding the transaction.

Certain loan products, including residential mortgages, home equity loans and lines of credit, and credit cards, have contractual features that may increase credit exposure to the Company in the event of an increase in interest rates or a decline in housing values. These products include loans that exceed 90% of the value of the underlying collateral (high LTV loans), interest-only and negative amortization residential mortgages, and loans with low introductory rates. Certain loans have more than one of these characteristics.

The following tables present balances of loans with these characteristics:

(in millions)	December 31, 2017					
	Residential Mortgages	Home Equity Loans and Lines of Credit	Home Equity Products Serviced by Others	Credit Cards	Education	Total
High loan-to-value	\$366	\$166	\$264	\$—	\$—	\$796
Interest only/negative amortization	1,763	—	—	—	1	1,764
Low introductory rate	—	—	—	197	—	197
Multiple characteristics and other	1	—	—	—	—	1
<b>Total</b>	<b>\$2,130</b>	<b>\$166</b>	<b>\$264</b>	<b>\$197</b>	<b>\$1</b>	<b>\$2,758</b>

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

**NOTE 6 - PREMISES, EQUIPMENT AND SOFTWARE**

***Premises and Equipment***

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization have been computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the life of the lease (including renewal options if exercise of those options is reasonably assured) or their estimated useful life, whichever is shorter.

Additions to premises and equipment are recorded at cost. The cost of major additions, improvements and betterments is capitalized. Normal repairs and maintenance and other costs that do not improve the property, extend the useful life or otherwise do not meet capitalization criteria are charged to expense as incurred. The Company evaluates premises and equipment for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable.

A summary of the carrying value of premises and equipment is presented below:

(dollars in millions)	Useful Lives	December 31,	
		2017	2016
Land and land improvements	10 years	\$47	\$47
Buildings and leasehold improvements	5-40 years	719	684
Furniture, fixtures and equipment	5-15 years	1,824	1,714
Total premises and equipment, gross		2,590	2,445
Accumulated depreciation		(1,905)	(1,844)
<b>Total premises and equipment, net</b>		<b>\$685</b>	<b>\$601</b>

The previous table includes capital leases with book values of \$30 million and \$45 million and related accumulated depreciation of \$20 million and \$30 million as of December 31, 2017 and 2016, respectively. Depreciation charged to noninterest expense totaled \$124 million, \$130 million, and \$116 million for the years ended December 31, 2017, 2016, and 2015, respectively, and is presented in the Consolidated Statements of Operations in both occupancy and equipment expense.

***Software***

Costs related to computer software developed or obtained for internal use are capitalized if the projects improve functionality and provide long-term future operational benefits. Capitalized costs are amortized using the straight-line method over the asset's expected useful life, based upon the basic pattern of consumption and economic benefits provided by the asset. The Company begins to amortize the software when the asset (or identifiable component of the asset) is substantially complete and ready for its intended use. All other costs incurred in connection with an internal-use software project are expensed as incurred. Capitalized software is included in other assets on the Consolidated Balance Sheets.

The Company had capitalized software assets of \$1.7 billion and \$1.5 billion and related accumulated amortization of \$869 million and \$691 million as of December 31, 2017 and 2016, respectively. Amortization expense was \$180 million, \$170 million, and \$146 million for the years ended December 31, 2017, 2016, and 2015, respectively.

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The estimated future amortization expense for capitalized software assets is presented below:

Year	(in millions)
2018	\$171
2019	141
2020	109
2021	71
2022	36
Thereafter	92
<b>Total (1)</b>	<b>\$620</b>

(1) Excluded from this balance is \$178 million of in-process software at December 31, 2017 .

**Operating Lease Assets**

Other assets on the Consolidated Balance Sheets included assets subject to operating leases, where the Company was the lessor, of \$112 million and \$158 million as of December 31, 2017 and 2016, respectively. Operating lease rental income for leased assets is recognized in other income on a straight-line basis over the lease term. Related depreciation expense is recorded on a straight-line basis over the estimated useful life, considering the estimated residual value of the leased asset. On a periodic basis, leased assets are reviewed for impairment. Impairment loss is recognized in other noninterest expense if the carrying amount of the leased assets exceeds fair value and is not recoverable. The carrying amount of leased assets is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the lease payments and the estimated residual value upon the eventual disposition of the asset.

**NOTE 7 - LEASE COMMITMENTS**

The Company is committed under long-term leases for the rental of premises and equipment. These leases have varying renewal options and in certain instances, require the payment of insurance, real estate taxes and other operating expenses.

At December 31, 2017 , the aggregate minimum rental commitments under these non-cancelable operating leases and capital leases, exclusive of renewals, are presented below for the years ended December 31:

(in millions)	Operating Leases	Capital Leases
2018	\$171	\$3
2019	148	2
2020	130	2
2021	111	2
2022	81	1
Thereafter	201	8
<b>Total minimum lease payments</b>	<b>\$842</b>	<b>\$18</b>
Amounts representing interest	—	(8)
<b>Present value of net minimum lease</b>	<b>\$842</b>	<b>\$10</b>

Occupancy and equipment expense including rental expense for non-cancelable operating leases and capital leases totaled \$211 million , \$208 million , and \$205 million for the years ended December 31, 2017 , 2016 , and 2015 , respectively.

**NOTE 8 - MORTGAGE BANKING**

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

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Mortgage loans held for sale are accounted for at fair value on an individual loan basis. Changes in the fair value, and realized gains and losses on the sales of mortgage loans, are reported in mortgage banking fees.

Information related to residential mortgage loan sales and the Company's mortgage banking activity is presented below:

(in millions)	Year Ended December 31,		
	2017	2016	2015
Residential mortgage loan sale proceeds <sup>(1)</sup>	\$3,161	\$2,652	\$2,667
Gain on sales	35	69	51
Mortgage servicing fees	53	51	55
Repurchased residential mortgages	3	6	10
Valuation recoveries	(2)	(4)	(9)

<sup>(1)</sup> Represents the unpaid principal balance at the time of the sale.

The Company recognizes the right to service mortgage loans for others, or MSR's, as assets whether the Company purchases the MSR's or the MSR's result from a sale. MSR's are initially recognized at fair value, and subsequently accounted for in the Consolidated Balance Sheets at the lower of cost or fair value, net of accumulated amortization, which is recorded in proportion to, and over the period of, net servicing income. The Company's identification of MSR's in a single class is determined based on the availability of market inputs and the Company's method of managing MSR risks. For the purpose of impairment evaluation and measurement, MSR's are stratified based on predominant risk characteristics (such as interest rate, loan size, origination date, term, or geographic location) of the underlying loans. An allowance is then established in the event the recorded value of an individual stratum exceeds fair value.

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

(in millions)	As of and for the Year Ended December 31,	
	2017	2016
<b>MSR's:</b>		
Balance as of beginning of period	\$167	\$173
Amount capitalized	37	29
Purchases	28	—
Amortization	(31)	(35)
Carrying amount before valuation allowance	201	167
<b>Valuation allowance for servicing assets:</b>		
Balance as of beginning of period	5	9
Valuation recoveries	(2)	(4)
Balance at end of period	3	5
<b>Net carrying value of MSR's</b>	<b>\$198</b>	<b>\$162</b>

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

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

(dollars in millions)	December 31,					
	2017			2016		
	Weighted-Average	Range		Weighted-Average	Range	
	\$218	Min	Max	\$182	Min	Max
Fair value						
Weighted-average life (in years)	5.9	2.3	8.4	5.7	2.6	7.3
Weighted-average constant prepayment rate	10.0%	6.6%	20.1%	10.8%	8.8%	22.3%
Weighted-average discount rate	9.9%	9.1%	12.1%	9.7%	9.1%	12.1%

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

	Year Ended December 31,		
	2017	2016	2015
Weighted-average life (in years)	7.3	6.1	5.9
Weighted-average constant prepayment rate	8.7%	11.0%	10.7%
Weighted-average discount rate	9.8%	9.7%	9.7%

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

(in millions)	December 31,	
	2017	2016
<b>Prepayment rate:</b>		
Decline in fair value from a 50 basis point decrease in interest rates	\$22	\$9
Decline in fair value from a 100 basis point decrease in interest rates	46	25
<b>Weighted-average discount rate:</b>		
Decline in fair value from a 50 basis point increase in weighted-average discount rate	4	3
Decline in fair value from a 100 basis point increase in weighted-average discount rate	8	6

The Company accounts for derivatives in its mortgage banking operations at fair value on the balance sheet as derivative assets or derivative liabilities, depending on whether the derivative had a positive (asset) or negative (liability) fair value as of the balance sheet date. The Company's mortgage banking derivatives include commitments to originate mortgages held for sale, certain loan sale agreements, and other financial instruments that meet the definition of a derivative.

**NOTE 9 - GOODWILL**

Goodwill is the purchase premium associated with the acquisition of a business and is assigned to reporting units at the acquisition date. A reporting unit is a business operating segment or a component of a business operating segment. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill. The Company has identified and allocated goodwill to two reporting units - Consumer Banking and Commercial Banking - based upon reviews of the structure of the Company's executive team and supporting functions, resource allocations and financial reporting processes.

Goodwill is not amortized, but is subject to annual impairment tests. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value,

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applicable goodwill is deemed to be not impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment.

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

The Company reviews goodwill for impairment annually as of October 31<sup>st</sup> or more often if events or circumstances indicate that it is more likely than not that the fair value of one or more reporting units is below its carrying value. The fair values of the Company's reporting units are determined using a combination of income and market-based approaches. The Company relies on the income approach (discounted cash flow method) for determining fair value. Market and transaction approaches are used as benchmarks only to corroborate the value determined by the discounted cash flow method. The Company relies on several assumptions when estimating the fair value of its reporting units using the discounted cash flow method. These assumptions include the discount rate, as well as projected loan loss, income tax and capital retention rates.

Discount rates are estimated based on the Capital Asset Pricing Model, which considers the risk-free interest rate, market risk premium, beta, and size premium adjustments specific to a particular reporting unit. The discount rates are also calibrated on the assessment of the risks related to the projected cash flows of each reporting unit. Cash flow projections include estimates for projected loan loss, income tax and capital retention rates. Multi-year financial forecasts are developed for each reporting unit by considering several key business drivers such as new business initiatives, customer retention standards, market share changes, anticipated loan and deposit growth, forward interest rates, historical performance, and industry and economic trends, among other considerations. The long-term growth rate used in determining the terminal value of each reporting unit is estimated based on management's assessment of the minimum expected terminal growth rate of each reporting unit, as well as broader economic considerations such as GDP and inflation.

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

Since 1988, the Company has completed more than 25 acquisitions of banks or assets of banks. In May 2017, Citizens Capital Markets, Inc., a wholly owned subsidiary of the Company, acquired the assets of Western Reserve Partners, LLC, a Cleveland-based merger and acquisition advisory firm. The acquisition resulted in an increase to goodwill of \$11 million. Changes in the carrying value of goodwill for the years ended December 31, 2017 and 2016 are presented below:

(in millions)	Consumer Banking	Commercial Banking	Total
Balance at December 31, 2015	\$2,136	\$4,740	\$6,876
Adjustments	—	—	—
Balance at December 31, 2016	\$2,136	\$4,740	\$6,876
Business acquisition	—	11	11
Adjustments	—	—	—
Balance at December 31, 2017	\$2,136	\$4,751	\$6,887

Accumulated impairment losses related to the Consumer Banking reporting unit totaled \$5.9 billion at December 31, 2017 and 2016. The accumulated impairment losses related to the Commercial Banking reporting unit totaled \$50 million at December 31, 2017 and 2016. No impairment was recorded for the years ended December 31, 2017, 2016 and 2015.

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**NOTE 10 - VARIABLE INTEREST ENTITIES**

The Company makes equity investments in various entities that are considered VIEs, as defined by GAAP. A VIE typically does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. The Company's variable interest arises from contractual, ownership or other monetary interests in the entity, which change with fluctuations in the fair value of the entity's net assets. The Company consolidates a VIE if it is the primary beneficiary of the entity. The Company is the primary beneficiary of a VIE if its variable interest provides it with the power to direct the activities that most significantly impact the VIE and the right to receive benefits (or the obligation to absorb losses) that could potentially be significant to the VIE. To determine whether or not a variable interest held could potentially be significant to the VIE, the Company considers both qualitative and quantitative factors regarding the nature, size and form of its involvement with the VIE. The Company assesses whether or not it is the primary beneficiary of a VIE on an ongoing basis.

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

(in millions)	December 31,	
	2017	2016
LIHTC investment included in other assets	\$951	\$793
LIHTC unfunded commitments included in other liabilities	491	428
Renewable energy investments included in other assets	335	220

**Low Income Housing Tax Credit Partnerships**

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

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

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

(in millions)	Year Ended December 31,	
	2017	2016
Tax credits included in income tax expense	\$83	\$59
Amortization expense included in income tax expense	94	59
Other tax benefits included in income tax expense	31	21

No LIHTC investment impairment losses were recognized during the years ended December 31, 2017 and 2016 .

**Renewable Energy Entities**

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

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**NOTE 11 - DEPOSITS**

Interest-bearing deposits in banks are carried at cost and include deposits that mature within one year.

The major components of deposits are presented below:

(in millions)	December 31,	
	2017	2016
Demand	\$29,279	\$28,472
Checking with interest	22,229	20,714
Regular savings	9,518	8,964
Money market accounts	37,454	38,176
Term deposits	16,609	13,478
<b>Total deposits</b>	<b>\$115,089</b>	<b>\$109,804</b>

The maturity distribution of term deposits as of December 31, 2017 is presented below:

Year	(in millions)
2018	\$13,754
2019	1,985
2020	351
2021	452
2022	62
2023 and thereafter	5
<b>Total</b>	<b>\$16,609</b>

Of these deposits, the amount of term deposits with a denomination of \$100,000 or more was \$11.4 billion at December 31, 2017 . The remaining maturities of these deposits are presented below:

(in millions)	
Three months or less	\$4,948
After three months through six months	1,925
After six months through twelve months	3,040
After twelve months	1,453
<b>Total term deposits</b>	<b>\$11,366</b>

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**NOTE 12 - BORROWED FUNDS**

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

(in millions)	December 31,	
	2017	2016
Federal funds purchased	\$460	\$533
Securities sold under agreements to repurchase	355	615
Other short-term borrowed funds	1,856	3,211
<b>Total short-term borrowed funds</b>	<b>\$2,671</b>	<b>\$4,359</b>

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

(in millions, except ratio data)	As of and for the Year Ended December 31,		
	2017	2016	2015
<b>Weighted-average interest rate at year-end: <sup>(1)</sup></b>			
Federal funds purchased and securities sold under agreements to repurchase	0.74%	0.26%	0.15%
Other short-term borrowed funds	1.72	0.94	0.44
<b>Maximum amount outstanding at month-end during the year:</b>			
Federal funds purchased and securities sold under agreements to repurchase <sup>(2)</sup>	\$1,174	\$1,522	\$5,375
Other short-term borrowed funds	3,508	5,461	7,004
<b>Average amount outstanding during the year:</b>			
Federal funds purchased and securities sold under agreements to repurchase <sup>(2)</sup>	\$776	\$947	\$3,364
Other short-term borrowed funds	2,321	3,207	5,865
<b>Weighted-average interest rate during the year: <sup>(1)</sup></b>			
Federal funds purchased and securities sold under agreements to repurchase	0.36%	0.09%	0.22%
Other short-term borrowed funds	1.32	0.64	0.28

<sup>(1)</sup> Rates exclude certain hedging costs.

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

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

(in millions)	December 31,	
	2017	2016
<b>Parent Company:</b>		
2.375% fixed-rate senior unsecured debt, due 2021	\$349	\$348
4.150% fixed-rate subordinated debt, due 2022	348	347
5.158% fixed-to-floating rate subordinated debt, due 2023, converting to floating at 3-month LIBOR + 3.56% and callable beginning June 2018	333	333
3.750% fixed-rate subordinated debt, due 2024	250	250
4.023% fixed-rate subordinated debt, due 2024	42	42
4.350% fixed-rate subordinated debt, due 2025	249	249
4.300% fixed-rate subordinated debt, due 2025	749	749
<b>Banking Subsidiaries:</b>		
2.300% senior unsecured notes, due 2018 <sup>(1)</sup> <sup>(2)</sup>	—	745
2.450% senior unsecured notes, due 2019 <sup>(1)</sup>	743	747
2.500% senior unsecured notes, due 2019 <sup>(1)</sup>	741	741
2.250% senior unsecured notes, due 2020 <sup>(1)</sup>	692	—
Floating-rate senior unsecured notes, due 2020 <sup>(1)</sup>	299	—
Floating-rate senior unsecured notes, due 2020 <sup>(1)</sup>	249	—
2.200% senior unsecured notes, due 2020 <sup>(1)</sup>	498	—
2.250% senior unsecured notes, due 2020 <sup>(1)</sup>	742	—
2.550% senior unsecured notes, due 2021 <sup>(1)</sup>	964	965
Floating-rate senior unsecured notes, due 2022 <sup>(1)</sup>	249	—
2.650% senior unsecured notes, due 2022 <sup>(1)</sup>	491	—
Federal Home Loan advances due through 2033	3,761	7,264
Other	16	10
<b>Total long-term borrowed funds</b>	<b>\$11,765</b>	<b>\$12,790</b>

<sup>(1)</sup> Issued under CBNA's Global Bank Note Program.

<sup>(2)</sup> Reclassified to short-term borrowed funds.

The Parent Company's long-term borrowed funds as of December 31, 2017 and 2016 included principal balances of \$2.3 billion and unamortized deferred issuance costs and/or discounts of (\$5) million and (\$7) million, respectively. The banking subsidiaries' long-term borrowed funds as of December 31, 2017 and 2016 include principal balances of \$9.5 billion and \$10.5 billion, respectively, with unamortized deferred issuance costs and/or discounts of (\$19) million and (\$12) million, respectively, and hedging basis adjustments of (\$63) million and (\$40) million, respectively. See Note 13 "Derivatives" for further information about the Company's hedging of certain long-term borrowed funds.

Advances, lines of credit, and letters of credit from the FHLB are collateralized by pledged mortgages and pledged securities at least sufficient to satisfy the collateral maintenance level established by the FHLB. The utilized borrowing capacity for FHLB advances and letters of credit was \$9.4 billion and \$13.4 billion at December 31, 2017 and 2016, respectively. The Company's available FHLB borrowing capacity was \$8.0 billion and \$2.8 billion at December 31, 2017 and 2016, respectively. The Company can also borrow from the FRB discount window to meet short-term liquidity requirements. Collateral, such as investment securities and loans, is pledged to provide borrowing capacity at the FRB. At December 31, 2017, the Company's unused secured borrowing capacity was approximately \$41.2 billion, which includes unencumbered securities, FHLB borrowing capacity, and FRB discount window capacity.

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A summary of maturities for the Company's long-term borrowed funds at December 31, 2017 is presented below:

(in millions)	Parent Company	Banking Subsidiaries	Consolidated
<b>Year</b>			
2018	\$—	\$—	\$—
2019	—	5,235	5,235
2020	—	2,492	2,492
2021	349	967	1,316
2022	348	744	1,092
2023 and thereafter	1,623	7	1,630
<b>Total</b>	<b>\$2,320</b>	<b>\$9,445</b>	<b>\$11,765</b>

**NOTE 13 - DERIVATIVES**

In the normal course of business, the Company enters into a variety of derivative transactions in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates and foreign currency exchange rates. These transactions include interest rate swap contracts, interest rate options, foreign exchange contracts, residential loan commitment rate locks, forward sale contracts and purchase options. The Company monitors the results of each transaction to ensure that management's intent is satisfied. The Company does not use derivatives for speculative purposes.

The Company's derivative instruments are recognized on the Consolidated Balance Sheets at fair value. Information regarding the valuation methodology and inputs used to estimate the fair value of the Company's derivative instruments is described in Note 19 "Fair Value Measurements."

Derivative assets and derivative liabilities are netted by counterparty on the balance sheet if a "right of setoff" has been established in a master netting agreement between the Company and the counterparty. This netted derivative asset or liability position is also netted against the fair value of any cash collateral that has been pledged or received in accordance with a Credit Support Annex.

At December 31, 2017, the total derivative net asset value decreased \$10 million and the total net liability value decreased by \$349 million from December 31, 2016. These decreases were primarily due to a change in the presentation of variation margin payments in the Consolidated Balance Sheet in 2017. Effective January 3, 2017, variation margin payments made on certain centrally cleared derivative contracts were classified as settlement of those derivatives rather than the posting of collateral. As a result of this change, on a prospective basis the Company modified its balance sheet presentation of certain interest rate swaps in 2017, such that the fair value of the swaps and the associated variation margin balances are reported as a single unit of account in derivative assets and/or derivative liabilities. At December 31, 2016, these variation margin balances were characterized as collateral. Variation margin balances characterized as collateral are reported in interest-bearing cash and due from banks on the Consolidated Balance Sheets.

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

(in millions)	December 31, 2017			December 31, 2016		
	Notional Amount (1)	Derivative Assets (2)	Derivative Liabilities (2)	Notional Amount (1)	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate contracts	\$13,300	\$—	\$—	\$13,350	\$52	\$193
Derivatives not designated as hedging instruments:						
Interest rate contracts	80,180	538	379	54,656	557	452
Foreign exchange contracts	9,882	148	149	8,039	134	126
Other contracts	1,039	7	5	1,498	16	7
<b>Total derivatives not designated as hedging instruments</b>		<b>693</b>	<b>533</b>		<b>707</b>	<b>585</b>
Gross derivative fair values		693	533		759	778
Less: Gross amounts offset in the Consolidated Balance Sheets (3)		(72)	(72)		(106)	(106)
Less: Cash collateral applied (3)		(4)	(151)		(26)	(13)
<b>Total net derivative fair values presented in the Consolidated Balance Sheets</b>		<b>\$617</b>	<b>\$310</b>		<b>\$627</b>	<b>\$659</b>

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

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

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

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

***Institutional derivatives***

The institutional derivatives portfolio primarily consists of interest rate swap agreements that are used to hedge the interest rate risk associated with the Company's loans and financing liabilities (i.e., borrowed funds, deposits, etc.).

The Company enters into certain interest rate swap agreements to hedge the risk associated with floating rate loans. By entering into receive-fixed/pay-floating interest rate swaps, the Company is able to minimize the variability in the cash flows of these assets due to changes in interest rates. The Company also uses receive-fixed/pay-floating interest rate swaps to manage the interest rate exposure on its medium term borrowings by effectively converting a portion of the fixed rate debt to floating. The Company has outstanding interest rate swap agreements designed to hedge a portion of the Company's borrowed funds and deposit liabilities. By entering into a pay-fixed/receive-floating interest rate swap, a portion of these liabilities has been effectively converted to a fixed rate liability for the term of the interest rate swap agreement. The goal of the Company's interest rate hedging activity is to manage interest rate sensitivity so that movements in interest rates do not significantly adversely affect net interest income. For derivatives designated for hedging purposes, net interest accruals are treated as an adjustment of interest income or interest expense of the item being hedged.

***Customer derivatives***

The customer derivatives portfolio consists of interest rate swap agreements and option contracts that are transacted to meet the financing needs of the Company's customers. Swap agreements and interest rate option agreements are transacted to effectively minimize the Company's market risk associated with the customer derivative products. The customer derivatives portfolio also includes foreign exchange contracts that are entered into on behalf of customers for the purpose of hedging exposure related to cash orders and loans and deposits denominated in foreign currencies. The primary risks associated with these transactions arise from exposure to changes in foreign currency exchange rates and the ability of the counterparties to meet the terms of the contract. To manage this market risk, the Company enters into offsetting foreign exchange contracts.

***Residential loan derivatives***

The Company enters into residential loan commitments that allow residential mortgage customers to lock in the interest rate on a residential mortgage while the loan undergoes the underwriting process. The Company also

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uses forward sales contracts to protect the value of residential mortgage loans and loan commitments that are being underwritten for future sale to investors in the secondary market.

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

***Derivatives designated as hedging instruments***

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

*Fair value hedges*

If a derivative is designated as a fair value hedge, gains or losses attributable to the change in fair value of the derivative instrument, as well as the gains and losses attributable to the change in fair value of the hedged item, are recognized in other income in the period in which the change in fair value occurs. Hedge ineffectiveness is recognized as other income to the extent the changes in fair value of the derivative do not offset the changes in fair value of the hedged item. Changes in the fair value of derivatives that do not qualify as hedges are recognized immediately in other income.

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

The following table presents the effect on other income of fair value hedges described above, in millions:

Amounts Recognized in Other Income for the Year Ended December 31,								
2017			2016			2015		
Derivative	Hedged Item	Hedge Ineffectiveness	Derivative	Hedged Item	Hedge Ineffectiveness	Derivative	Hedged Item	Hedge Ineffectiveness
(\$26)	\$27	\$1	(\$6)	\$5	(\$1)	(\$2)	\$2	\$—

*Cash flow hedges*

The Company has outstanding interest rate swap agreements designed to hedge a portion of the Company's floating rate assets, and financing liabilities (including its borrowed funds). All of these swaps have been deemed as highly effective cash flow hedges. The effective portion of the hedging gains and losses associated with these hedges are recorded in OCI; the ineffective portion of the hedging gains and losses is recorded in earnings (other income). Hedging gains and losses on derivative contracts reclassified from OCI to current period earnings are included in the line item in the accompanying Consolidated Statements of Operations in which the hedged item is recorded and in the same period that the hedged item affects earnings. During the next 12 months, there are \$1 million in pre-tax net losses on derivative instruments included in OCI expected to be reclassified to net interest income in the Consolidated Statements of Operations.

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

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

(in millions)	<b>Amounts Recognized for the Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Effective portion of (loss) gain recognized in OCI <sup>(1)</sup>	(\$23)	(\$100)	\$150
Amounts reclassified from OCI to interest income <sup>(2)</sup>	25	90	82
Amounts reclassified from OCI to interest expense <sup>(2)</sup>	—	(27)	(59)
Amounts reclassified from OCI to other income <sup>(3)</sup>	—	(5)	—

- (1) The cumulative effective gains and losses on the Company's cash flow hedging activities are included on the accumulated other comprehensive loss line item on the Consolidated Balance Sheets.  
(2) This amount includes both (a) the amortization of effective gains and losses associated with the Company's terminated cash flow hedges and (b) the current reporting period's interest settlements realized on the Company's active cash flow hedges. Both (a) and (b) were previously included on the accumulated other comprehensive loss line item on the Consolidated Balance Sheets and were subsequently recorded as adjustments to the interest income or expense of the underlying hedged item.  
(3) This includes gains and losses attributable to previously hedged cash flows where the likelihood occurrence of those cash flows is no longer probable.

**Derivatives not designated as hedging instruments**

*Economic hedges*

The Company's customer derivatives are recorded on the Consolidated Balance Sheets at fair value. These include interest rate and foreign exchange derivative contracts that are designed to meet the hedging and financing needs of the Company's customers. Mark-to-market adjustments to the fair value of these contracts are included in foreign exchange and interest rate products on the Consolidated Statement of Operations. The mark-to-market gains and losses associated with the customer derivatives are mitigated by the mark-to-market gains and losses on the offsetting interest rate and foreign exchange derivative contracts transacted.

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

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

(in millions)	<b>Amounts Recognized in Noninterest Income for the Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Customer derivative contracts</b>			
Customer interest rate contracts <sup>(1)</sup>	\$5	(\$23)	\$140
Customer foreign exchange contracts <sup>(1)</sup>	172	(81)	(18)
Residential loan commitments <sup>(2)</sup>	2	(2)	(4)
<b>Economic hedges</b>			
Offsetting derivatives transactions to hedge interest rate risk on customer interest rate contracts <sup>(1)</sup>	46	70	(106)
Offsetting derivatives transactions to hedge foreign exchange risk on customer foreign exchange contracts <sup>(1)</sup>	(151)	95	19
Forward sale contracts <sup>(2)</sup>	(8)	6	1
<b>Total</b>	<b>\$66</b>	<b>\$65</b>	<b>\$32</b>

- (1) Reported in foreign exchange and interest rate products on the Consolidated Statements of Operations.  
(2) Reported in mortgage banking fees on the Consolidated Statements of Operations.

**NOTE 14 - EMPLOYEE BENEFITS**

**Pension Plans**

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

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The qualified plan's allocation by asset category is presented below:

<b>Asset Category</b>	<b>Target Asset Allocation</b>	<b>Actual Asset Allocation</b>	
	<b>2017</b>	<b>2017</b>	<b>2016</b>
Equity securities	48-58%	54.0%	49.6%
Debt securities	41-51%	45.0%	45.2%
Other		1.0%	5.2%
<b>Total</b>		<b>100.0%</b>	<b>100.0%</b>

The written Pension Plan Investment Policy, set forth by the CFG Retirement Committee, formulates investment principles and guidelines that are appropriate for the needs and objectives of the Plan, and defines the management, structure, and monitoring procedures adopted for the ongoing operation of the aggregate funds of the Plan. Stated goals and objectives are:

- Achieve a total return, consistent with prudent investment management, that together with any new contributions from the Employer, will be sufficient to meet the benefits which the Plan seeks to provide.
- The nominal return target for the overall Plan is to meet or exceed the Plan's Policy Index;
- Total portfolio risk exposure should generally rank in the mid-range of comparable funds. Risk-adjusted returns are expected to consistently rank in the top-half of comparable funds; and
- Investment managers shall meet or exceed the return of the designated benchmark index and rank in the top-half of the appropriate asset class and style universe.

The CFG Retirement Committee reviews, at least annually, the assets and net cash flow of the Plan, discusses the current economic outlook and the Plan's investment strategy with the investment managers, reviews the current asset mix and its compliance with the Policy, and receives and considers statistics on the investment performance of the Plan and its managers.

The equity investment mandates follows a global equity approach. Investments are made in broadly diversified portfolios that contain investments in U.S. and non-U.S. developed and developing economies. The fixed income investment mandates are US investment grade mandates and follow a long duration investment approach. Investment in high-yield bonds are not allowed unless an investment grade bond is downgraded to a non-investment grade category.

The assets of the qualified plan may be invested in any or all of the following asset categories:

- Equity-oriented investments:
  - domestic and foreign common and preferred stocks, and related rights, warrants, convertible debentures, and other common share equivalents
- Fixed income-oriented investments:
  - domestic and foreign bonds, debentures and notes
  - mortgages
  - mortgage-backed securities
  - asset-backed securities
  - money market securities or cash
  - financial futures and options on financial futures
  - forward contracts

In addition, derivatives may be employed under the guidelines established for individual managers in order to manage risk exposures and/or to increase the efficiency of strategies. The extent to which derivatives are utilized will be specified in the investment guidelines for each manager. The Plan will not be exposed to losses through derivatives that exceed the capital invested.

In selecting the expected long-term rate of return on assets, the Company considers the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of this Plan. This includes

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considering the trust's asset allocation and the expected returns likely to be earned over the life of the Plan. This basis is consistent with the prior year.

Changes in the fair value of defined benefit pension plan assets, projected benefit obligation, funded status, and accumulated benefit obligation are presented below:

(in millions)	Year Ended December 31,			
	Qualified Plan		Non-Qualified Plan	
	2017	2016	2017	2016
Fair value of plan assets as of January 1	\$1,015	\$917	\$—	\$—
Actual return on plan assets	185	82	—	—
Employer contributions	—	75	8	8
Benefits and administrative expenses paid	(61)	(59)	(8)	(8)
Fair value of plan assets as of December 31	1,139	1,015	—	—
Projected benefit obligation	1,089	1,024	106	105
Pension asset (obligation)	\$50	(\$9)	(\$106)	(\$105)
Accumulated benefit obligation	\$1,089	\$1,024	\$106	\$105

The Company recognized actuarial gains and losses (for the qualified and non-qualified plans) in AOCI resulting in an ending balance of \$585 million and \$634 million at December 31, 2017 and 2016, respectively. Approximately \$17 million of net actuarial loss recorded in AOCI as of December 31, 2017 is expected to be recognized as a component of net periodic benefit costs during 2018.

Other changes in plan assets and benefit obligations recognized in OCI (for the qualified, non-qualified and postretirement plans) are presented below:

(in millions)	Year Ended December 31,		
	2017	2016	2015
Net periodic pension income	(\$2)	(\$1)	(\$7)
Net actuarial (gain) loss	(31)	54	7
Amortization of prior service credit	1	1	—
Amortization of net actuarial loss	(18)	(16)	(15)
Total recognized in other comprehensive income (loss)	(48)	39	(8)
Total recognized in net periodic pension cost and other comprehensive income (loss)	(\$50)	\$38	(\$15)

Pension costs under defined benefit plans are actuarially computed and include current service costs and amortization of prior service costs over the participants' average future working lifetime. The actuarial cost method used in determining the net periodic pension cost is the projected unit method.

The components of net periodic pension (income) cost for the Company's qualified and non-qualified plans are presented below:

(in millions)	Year Ended December 31,								
	Qualified Plan			Non-Qualified Plan			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Service cost	\$3	\$3	\$3	\$—	\$—	\$—	\$3	\$3	\$3
Interest cost	42	44	44	4	4	4	46	48	48
Expected return on plan assets	(69)	(68)	(74)	—	—	—	(69)	(68)	(74)
Amortization of actuarial loss	16	14	13	2	2	2	18	16	15
Net periodic pension (income) cost	(\$8)	(\$7)	(\$14)	\$6	\$6	\$6	(\$2)	(\$1)	(\$8)

Net periodic pension (income) cost is presented in the accompanying consolidated statements of operations in salaries and employee benefits.

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Weighted-average rates assumed in determining the actuarial present value of benefit obligations and net periodic benefit cost are presented below:

	<b>As of and for the Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Assumptions for benefit obligations</b>			
Discount rate-qualified plan	3.670%	4.190%	4.640%
Discount rate-non-qualified plan	3.530%	4.050%	4.540%
Expected long-term rate of return on plan assets	7.000%	7.500%	7.500%
<b>Assumptions for net periodic pension cost</b>			
Discount rate-qualified plan	4.190%	4.640%	4.125%
Discount rate-non-qualified plan	4.050%	4.540%	3.875%
Expected long-term rate of return on plan assets	7.000%	7.500%	7.500%

On September 7, 2016, the Company made a contribution of \$75 million to the qualified plan. No contribution was made to the qualified plan in 2017. The Company expects to contribute approximately \$8 million to the non-qualified plan in 2018. No contribution to the qualified plan is planned in 2018.

Expected future benefit payments for the qualified and non-qualified plans are presented below:

	(in millions)
<b>Expected benefit payments by fiscal year ending</b>	
December 31, 2018	\$65
December 31, 2019	66
December 31, 2020	66
December 31, 2021	67
December 31, 2022	68
December 31, 2023 - 2027	346

**Fair Value Measurements**

The following valuation techniques are used to measure the qualified pension plan assets at fair value:

*Cash and money market funds:*

Cash and money market funds represent instruments that generally mature in one year or less and are valued at cost, which approximates fair value. Cash and money market funds are classified as Level 2.

*U.S. government obligations, municipal obligations, corporate bonds, asset-backed securities and mortgage-backed securities-Managed portfolio:*

U.S. government obligations, municipal obligations, corporate bonds, asset-backed securities and mortgage-backed securities are valued at the quoted market prices determined in the active markets in which the securities are traded. If quoted market prices are not available, the fair value for the security is estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. These investments are classified as Level 2, because they currently trade in active markets for similar securities and the inputs to the valuations are observable.

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The following table presents qualified pension plan assets measured at fair value within the fair value hierarchy:

(in millions)	Fair Value Measurements as of December 31, 2017			
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Managed portfolio assets:				
U.S. government obligations	8	—	8	—
Non-U.S. government obligations	2	—	2	—
Municipal obligations	1	—	1	—
Corporate bonds	102	—	102	—
Asset-backed securities	1	—	1	—
Total assets in the fair value hierarchy	114	—	114	—
Investments measured at net asset value <sup>(1)</sup>	1,024			
Assets at fair value at measurement date of December 31, 2017	\$1,138	\$—	\$114	\$—

<sup>(1)</sup> Certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

The following table presents qualified pension plan assets measured at fair value within the fair value hierarchy:

(in millions)	Fair Value Measurements as of December 31, 2016			
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Managed portfolio assets				
Cash and money market funds	2	—	2	—
U.S. government obligations	10	—	10	—
Municipal obligations	2	—	2	—
Corporate bonds	89	—	89	—
Asset-backed securities	1	—	1	—
Total assets in the fair value hierarchy	104	—	104	—
Investments measured at net asset value <sup>(1)</sup>	918			
Assets at fair value at measurement date of December 31, 2016	\$1,022	\$—	\$104	\$—

<sup>(1)</sup> Certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

There were no transfers among Levels 1, 2 or 3 during the years ended December 31, 2017, and 2016. The fair values of participation units held in the common and collective funds and limited partnerships are based on NAV.

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The following table presents the unfunded commitments, redemption frequency and redemption notice period for Plan investments that utilize net asset value to determine fair value:

Investment (dollars in millions)	Fair Value Estimated Using Net Asset Value per Share December 31,					
	2017	2016	Unfunded Commitment	Redemption Frequency	Redemption Restrictions	Redemption Notice Period
Liquid Cash Fund	\$11	\$9	\$—	Daily	None	Same day before 5:30pm ET
Equity Mutual Fund (1)	—	40	—	Daily	None	7 days
<b>Common and Collective Funds:</b>						
Global equities funds	472	386	—	Daily	None	3 days
Balanced funds	214	193	—	Daily	None	2 days
Fixed income fund	150	133	—	Daily	None	3 days
Managed Portfolio - Fixed Income Mutual Fund (2)	35	30	—	Daily	None	1 days
<b>Limited Partnerships:</b>						
International equity fund	142	117	—	Monthly	None	3 days
Offshore feeder fund	—	10	—	Monthly	None	14 days
<b>Total</b>	<b>\$1,024</b>	<b>\$918</b>	<b>\$—</b>			

(1) The equity mutual fund seeks to offer participants capital appreciation by primarily investing in common stocks via investments in several underlying funds of the same fund family. The principal investment objective is to generate positive total return.

(2) The managed portfolio fixed income mutual fund seeks to outperform the Barclay's U.S. Long Credit Index or similar benchmark.

**Postretirement Benefits**

The Company provides health care insurance benefits to eligible retirees and their spouses through age 65, at which time Medicare becomes the primary coverage provider.

Employees enrolled in medical coverage immediately prior to retirement and meeting eligibility requirements can elect retiree medical coverage. Coverage must be elected at the time of retirement and cannot be elected at a future date. Spouses may be covered only if the spouse is covered at the time of the employee's retirement.

The Company reviews coverage on an annual basis and reserves the right to modify or cancel coverage at any renewal date. Effective July 1, 2014, the Company utilizes a private health care exchange to provide medical and dental benefits to current and future Medicare-eligible plan participants. The Company provides a fixed subsidy to a small, closed group of retirees and spouses based on the subsidy levels prior to July 1, 2014; retirees and spouses pay the cost of benefits in excess of the fixed subsidy. The cost of postretirement benefits other than pensions is recognized on an accrual basis during the periods employees provide services to earn those benefits.

Expected future benefit payments for the postretirement benefit plan are presented below:

Expected benefit payments by fiscal year ending	(in millions)
December 31, 2018	\$2
December 31, 2019	2
December 31, 2020	1
December 31, 2021	1
December 31, 2022	1
December 31, 2023 - 2027	5

The Company expects to contribute approximately \$2 million to the plan during 2018 .

The discount rate assumed in determining the actuarial present value of benefit obligations was 3.20% as of December 31, 2017 compared with 3.53% as of December 31, 2016 .

For measurement purposes, the assumed annual rate of increase in the per capita cost of covered health care benefits was 7% in December 31, 2017 and in 2016 , and is expected to decrease gradually to 5.0% by 2022.

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Weighted-average rates assumed in determining the net periodic benefit cost of the postretirement benefits plan are as follows:

(dollars in millions)	For the Year Ended December 31,	
	2017	2016
Discount rate	3.530%	3.930%
Rate of compensation increase	N/A	N/A
Ultimate health care cost trend rate	5.000%	5.000%
Effect on accumulated postretirement benefit obligation:		
One percent increase in assumed health care cost trend	\$—	\$—
One percent decrease in assumed health care cost trend	—	—

**401(k) Plan**

The Company sponsors a 401(k) plan under which employee tax-deferred/Roth after-tax contributions to the plan are matched by the Company after completion of one year of service. Effective January 1, 2013, contributions were matched at 100% up to an overall limitation of 5% on a pay period basis. Subsequently, effective January 1, 2015, 100% of matching contributions was reduced from 5% to 4% on a pay period basis. Substantially all employees will receive an additional 2% of earnings after completion of one year of service, subject to limits set by the Internal Revenue Service. Amounts contributed and expensed by the Company were \$61 million in 2017 compared to \$55 million in 2016 and \$52 million in 2015.

**NOTE 15 - RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE LOSS**

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

(in millions)	Net Unrealized (Losses) Gains on Derivatives	Net Unrealized (Losses) Gains on Securities	Employee Benefit Plans	Total AOCI
Balance at January 1, 2015	(\$69)	\$74	(\$377)	(\$372)
Other comprehensive income before reclassifications	93	(66)	—	27
Other-than-temporary impairment not recognized in earnings on securities	—	(22)	—	(22)
Amounts reclassified from other comprehensive income	(14)	(14)	8	(20)
Net other comprehensive loss	79	(102)	8	(15)
Balance at December 31, 2015	\$10	(\$28)	(\$369)	(\$387)
Other comprehensive income before reclassifications	(62)	(139)	—	(201)
Other-than-temporary impairment not recognized in earnings on securities	—	(17)	—	(17)
Amounts reclassified from other comprehensive income	(36)	(2)	(25)	(63)
Net other comprehensive loss	(98)	(158)	(25)	(281)
Balance at December 31, 2016	(\$88)	(\$186)	(\$394)	(\$668)
Other comprehensive income before reclassifications	(14)	(6)	—	(20)
Amounts reclassified from other comprehensive income	(16)	(2)	31	13
Net other comprehensive loss	(30)	(8)	31	(7)
Reclassification of tax effects resulting from the 2017 Tax Legislation <sup>(1)</sup>	(25)	(42)	(78)	(145)
Balance at December 31, 2017	(\$143)	(\$236)	(\$441)	(\$820)

<sup>(1)</sup> As of December 31, 2017, the balance of AOCI reflects the retrospective adoption of FASB ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. For further discussion, see Note 22 "Income Taxes."

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

(in millions)	Year Ended December 31,			Affected Line Item in the Consolidated Statements of Operations
	2017	2016	2015	
<b>Details about AOCI Components</b>				
Reclassification adjustment for net derivative gains (losses) included in net income:	\$25	\$90	\$82	Interest income
	—	(27)	(59)	Interest expense
	—	(5)	—	Other income
	25	58	23	Income before income tax expense
	9	22	9	Income tax expense
	\$16	\$36	\$14	Net income
Reclassification of net securities gains (losses) to net income:	\$11	\$16	\$29	Securities gains, net
	(7)	(12)	(7)	Net securities impairment losses recognized in earnings
	4	4	22	Income before income tax expense
	2	2	8	Income tax expense
	\$2	\$2	\$14	Net income
Reclassification of changes related to the employee benefit plan:	(\$48)	\$39	(\$8)	Salaries and employee benefits
	(48)	39	(8)	Income before income tax expense
	(17)	14	—	Income tax expense
	(\$31)	\$25	(\$8)	Net income
<b>Total reclassification (losses) gains</b>	(\$13)	\$63	\$20	Net income

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

(in millions)	Year Ended December 31,		
	2017	2016	2015
Net interest income (includes \$25, \$63 and \$23 of AOCI reclassifications, respectively)	\$4,173	\$3,758	\$3,402
Provision for credit losses	321	369	302
Noninterest income (includes \$4, (\$1) and \$22 of AOCI reclassifications, respectively)	1,534	1,497	1,422
Noninterest expense (includes \$48, (\$39) and \$8 of AOCI reclassifications, respectively)	3,474	3,352	3,259
Income before income tax expense	1,912	1,534	1,263
Income tax expense (includes (\$6), \$38 and \$17 income tax net expense from reclassification items, respectively)	260	489	423
Net income	\$1,652	\$1,045	\$840

**NOTE 16 - STOCKHOLDERS' EQUITY**

**Preferred Stock**

The Company had 100,000,000 shares authorized and 250,000 shares outstanding of \$25.00 par value undesignated preferred stock as of December 31, 2017 and 2016. The Board of Directors or any authorized committee thereof are authorized to provide for the issuance of these shares in one or more series, and by filing a certificate pursuant to applicable law of the State of Delaware, to establish or change from time to time the number of shares of each such series, and to fix the designations, powers, including voting powers, full or limited, or no voting powers, preferences and the relative, participating, optional or other special rights of the shares of each series and any qualifications, limitations and restrictions thereof.

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

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

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

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

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

**Treasury Stock**

The purchase of the Company's common stock is recorded at cost. At the date of retirement or subsequent reissuance, treasury stock is reduced by the cost of such stock on a first-in, first-out basis with differences recorded in additional paid-in capital or retained earnings, as applicable.

During the year ended December 31, 2017 , the Company paid \$820 million to repurchase 22,362,401 common shares at a weighted-average price of \$36.67 ; \$845 million was recorded in treasury stock and \$25 million was recorded in additional paid in capital. The repurchased shares are held in treasury stock. During the year ended December 31, 2017, the Company recorded no shares of treasury stock associated with share-based compensation plan activity.

During the year ended December 31, 2016 , the Company paid \$430 million to repurchase 17,332,684 common shares at an average price of \$24.81 ; \$405 million was recorded in treasury stock and \$25 million was recorded in additional paid in capital. The repurchased shares are held in treasury stock. During the year ended December 31, 2016, the Company recorded no shares of treasury stock associated with share-based compensation plan activity.

**NOTE 17 - SHARE-BASED COMPENSATION**

The Company has share-based employee compensation plans as outlined below, pursuant to which stock awards are granted to employees and non-employee directors. The Company measures compensation expense related to stock awards based upon the fair value of the awards on the grant date, adjusted for forfeitures as they occur. The related expense is charged to earnings on a straight-line basis over the requisite service period (e.g., vesting period) of the award. With respect to performance-based stock awards, compensation expense is adjusted upward or downward based upon the probability of achievement of performance. Awards that continue to vest after retirement are expensed over the shorter of the period of time from grant date to the final vesting date or from the grant date to the date when an employee is retirement eligible. Awards granted to employees who are retirement eligible at the grant date are generally expensed immediately upon grant.

Employees of the Company hold time-based restricted stock units and performance-based restricted stock units. A restricted stock unit is the right to receive shares of stock on a future date, which may be subject to time-based vesting conditions and/or performance-based vesting conditions. If a dividend is paid on shares underlying the awards prior to the date such shares are distributed, those dividends will be distributed following vesting in the same form as the dividend that has been paid to common stockholders generally.

*Citizens Financial Group, Inc. Converted Equity 2010 Long Term Incentive Plan.* In March 2014, The Royal Bank of Scotland Group plc granted special IPO awards to certain Citizens employees pursuant to this plan. These awards were granted half in the form of restricted stock units in respect of The Royal Bank of Scotland Group plc shares and half as a fixed convertible bond. Pursuant to their terms, upon the closing of the Company's IPO, these awards were converted into Company restricted stock units and the performance condition was met. These awards remained subject to the original vesting schedule and terms following the IPO, with half becoming vested in March

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2016 and the remaining portion becoming vested in March 2017. No additional awards have been granted under this plan.

*Citizens Financial Group, Inc. Converted Equity 2010 Deferral Plan.* Prior to the Company's IPO, The Royal Bank of Scotland Group plc granted time-based restricted stock units to certain Citizens employees pursuant to this plan. Pursuant to their terms, upon the closing of the Company's IPO these awards were converted into Company restricted stock units and remained subject to the original vesting schedules and terms. No additional awards have been granted under this plan.

*Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan.* Certain employees of the Company hold time-based restricted stock units and performance-based restricted stock units granted under this plan. Time-based restricted stock units granted generally become vested ratably over a three -year period and performance-based restricted stock units granted generally become vested at the end of a three -year performance period, depending on the level of performance achieved during such period.

*Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan.* Non-employee directors receive grants of time-based restricted stock units under this plan as compensation for their services pursuant to the Citizens Financial Group, Inc. Directors Compensation Policy. Starting with grants made in August 2017, restricted stock units granted to directors are fully vested on the grant date, with settlement of the awards deferred until a director's cessation of service.

*Citizens Financial Group, Inc. 2014 Employee Stock Purchase Plan.* The Company also maintains the Citizens Financial Group, Inc. Employee Stock Purchase Plan (the "ESPP"), which provides eligible employees an opportunity to purchase its common stock at a 10% discount, through accumulated payroll deductions. Eligible employees may contribute up to 10% of eligible compensation to the ESPP, up to a maximum purchase of \$25,000 worth of stock in any calendar year. Offering periods under the ESPP are quarterly. Shares of CFG common stock are purchased for a participant on the last day of each quarter at a 10% discount from the fair market value (fair market value under the plan is defined as the closing price on the day of purchase). Prior to the date the shares are purchased, participants do not have any rights or privileges as a stockholder with respect to shares to be purchased at the end of the offering period.

### **Summary of Share-Based Plans Activity**

The following table presents the activity related to the Company's share-based plans (excluding the ESPP) for the year ended December 31, 2017 :

<i>CFG Share Awards</i>	<b>Shares Underlying Awards</b>	<b>Weighted-Average Grant Price</b>
Outstanding, January 1	2,909,029	\$23.92
Granted	1,256,816	39.09
Vested & Distributed	(1,426,850)	21.91
Forfeited	(117,481)	32.12
Outstanding, December 31	2,621,514	\$33.30

During the years ended December 31, 2017, 2016 and 2015, the following number of CFG share awards were granted: 2017: ( 1,256,816 granted with a weighted-average grant price of \$39.09 ); 2016 ( 1,552,416 granted with weighted-average grant price of \$24.53 ); and 2015 ( 1,315,572 granted with weighted-average grant price of \$25.18 ).

In addition, the following number of CFG share awards became vested and distributed: 2017 ( 1,426,850 vested and distributed with a weighted-average grant price of \$21.91 ); 2016 ( 1,762,655 vested with weighted-average grant price of \$22.14 ); and 2015 ( 2,496,092 vested with weighted-average grant price of \$22.15 ).

There are 57,543,638 shares of Company common stock available for awards to be granted under its employee share plans ( including the "ESPP"). Upon settlement of share-based awards, the Company generally issues new shares, but may also issue shares from treasury stock.

### *Compensation Expense*

The Company measures compensation expense related to stock awards based upon the fair value of the awards on the grant date. Compensation expense is adjusted for forfeitures as they occur. The related expense is charged to earnings on a straight-line basis over the requisite service period (e.g., vesting period) of the award. With respect to performance-based stock awards, compensation expense is adjusted upward or downward based

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upon the probability of achievement of performance. Awards that continue to vest after retirement are expensed over the shorter of the period of time from grant date to the final vesting date or from the grant date to the date when an employee is retirement eligible. Awards granted to employees who are retirement eligible at the grant date are generally expensed immediately upon grant.

Compensation expense related to the above share plans (including the ESPP) was \$39 million , \$23 million , and \$24 million for the years ended December 31, 2017 , 2016 , and 2015 , respectively. At December 31, 2017 , the total unrecognized compensation expense for nonvested equity awards granted was \$47 million . This expense is expected to be recognized over a weighted-average period of two years . No share-based compensation costs were capitalized during the years ended December 31, 2017 , 2016 , and 2015 .

The income tax benefit recognized in earnings based on the compensation expense recognized for all share-based compensation arrangements amounted to \$9 million , \$8 million and \$5 million for the years ended December 31, 2017 , 2016 , and 2015 , respectively.

**NOTE 18 - COMMITMENTS AND CONTINGENCIES**

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

(in millions)	December 31,	
	2017	2016
Undrawn commitments to extend credit	\$62,959	\$60,872
Financial standby letters of credit	2,036	1,892
Performance letters of credit	47	40
Commercial letters of credit	53	43
Marketing rights	41	44
Risk participation agreements	16	19
Residential mortgage loans sold with recourse	7	8
<b>Total</b>	<b>\$65,159</b>	<b>\$62,918</b>

***Commitments to Extend Credit***

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

***Letters of Credit***

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

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

The Company recognizes a liability on the Consolidated Balance Sheets representing its obligation to stand ready to perform over the term of the standby letters of credit in the event that the specified triggering events occur. The liability for these guarantees was \$3 million at December 31, 2017 and 2016 .

***Marketing Rights***

During 2003, the Company entered into a 25 -year agreement to acquire the naming and marketing rights of a baseball stadium in Pennsylvania. The Company paid \$3 million for the years ended December 31, 2017 and 2016 , and is obligated to pay \$41 million over the remainder of the contract.

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***Risk Participation Agreements***

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

RPAs where the Company acts as the lead bank are referred to as “participations-out,” in reference to the credit risk associated with the customer derivatives being transferred out of the Company. Participations-out generally occur concurrently with the sale of new customer derivatives. RPAs where the Company acts as the participating bank are referred to as “participations-in,” in reference to the credit risk associated with the counterparty’s derivatives being assumed by the Company. The Company’s maximum credit exposure is based on its proportionate share of the settlement amount of the referenced interest rate swap. Settlement amounts are generally calculated based on the fair value of the swap plus outstanding accrued interest receivable from the customer. The Company’s estimate of the credit exposure associated with its risk participations-in as of December 31, 2017 and 2016 is \$16 million and \$19 million , respectively. The current amount of credit exposure is spread out over 88 counterparties. RPAs generally have terms ranging from one to five years; however, certain outstanding agreements have terms as long as nine years .

***Residential Loans Sold with Recourse***

The Company is an originator and servicer of residential mortgages and routinely sells such mortgage loans in the secondary market and to government-sponsored entities. In the context of such sales, the Company makes certain representations and warranties regarding the characteristics of the underlying loans and, as a result, may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of those representations and warranties.

***Other Commitments***

During 2017, the Company entered into an agreement to purchase education loans on a quarterly basis. As of December 31, 2017, the Company completed all purchases under this arrangement.

The Company’s commercial loan trading desk provides ongoing secondary market support and liquidity to its clients. Unsettled loan trades (i.e., loan purchase contracts) represent firm commitments to purchase loans from a third party at an agreed-upon price. Principal amounts associated with unsettled commercial loan trades are off-balance sheet commitments until delivery of the loans has taken place. Fair value adjustments associated with each unsettled loan trade are recognized on the Consolidated Balance Sheets and classified within other assets or other liabilities, depending on whether the fair value of the unsettled trade represents an unrealized gain or unrealized loss. The principal balances of unsettled commercial loan trade purchases and sales were \$65 million and \$132 million , respectively, at December 31, 2017 and \$127 million and \$177 million , respectively, at December 31, 2016. Settled loans purchased by the trading desk are classified as loans held for sale, at fair value on the Consolidated Balance Sheets. Refer to Note 19 “Fair Value Measurements” for further information.

***Contingencies***

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

In these disputes and proceedings, the Company contests liability and the amount of damages as appropriate. Given their complex nature, and based on the Company’s experience, it may be years before some of these matters are finally resolved. Moreover, before liability can be reasonably estimated for a claim, numerous legal and factual

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issues may need to be examined, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal issues relevant to the proceedings in question.

The Company cannot predict with certainty if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages. The Company recognizes a provision for a claim when, in the opinion of management after seeking legal advice, it is probable that a liability exists and the amount of loss can be reasonably estimated. In many proceedings, however, it is not possible to determine whether any loss is probable or to estimate the amount of any loss.

Based on information currently available, the advice of legal counsel and other advisers, and established reserves, management believes that the aggregate liabilities, if any, potentially arising from these proceedings will not have a materially adverse effect on the Company's Consolidated Financial Statements.

As previously reported, CBNA entered into a consent order with the OCC in November 2015 in connection with past billing practices. All financial penalties and remediation associated with this legacy matter have been paid and completed.

**NOTE 19 - FAIR VALUE MEASUREMENTS**

The Company measures or monitors many of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for assets and liabilities for which fair value is the required or elected measurement basis of accounting. Additionally, fair value is used on a nonrecurring basis to evaluate assets for impairment or for disclosure purposes. Nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets. The Company also applies the fair value measurement guidance to determine amounts reported for certain disclosures in this Note for assets and liabilities not required to be reported at fair value in the financial statements.

***Recurring Fair Value Measurements***

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

A portion of the Company's assets and liabilities is carried at fair value, including securities available for sale, derivative instruments and other investment securities. In addition, the Company elects to account for its loans associated with its mortgage banking business and secondary loan trading desk at fair value. The Company classifies its assets and liabilities that are carried at fair value in accordance with the three-level valuation hierarchy:

- Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar instruments, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by market data for substantially the full term of the asset or liability.
- Level 3. Unobservable inputs that are supported by little or no market information and that are significant to the fair value measurement.

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

The Company reviews and updates the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs in fair value measurements may result in a reclassification between the fair value hierarchy levels and are recognized based on period-end balances.

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

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*Securities available for sale*

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

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

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

*Residential loans held for sale*

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

*Commercial loans held for sale*

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

*Derivatives*

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

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

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*Money Market Mutual Fund*

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

*Other investments*

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

The following table presents assets and liabilities measured at fair value, including gross derivative assets and liabilities on a recurring basis at December 31, 2017 :

(in millions)	Total	Level 1	Level 2	Level 3
<b>Securities available for sale:</b>				
Mortgage-backed securities	\$20,139	\$—	\$20,139	\$—
State and political subdivisions	6	—	6	—
U.S. Treasury and other	12	12	—	—
<b>Total securities available for sale</b>	<b>20,157</b>	<b>12</b>	<b>20,145</b>	<b>—</b>
<b>Loans held for sale, at fair value:</b>				
Residential loans held for sale	326	—	326	—
Commercial loans held for sale	171	—	171	—
<b>Total loans held for sale, at fair value</b>	<b>497</b>	<b>—</b>	<b>497</b>	<b>—</b>
<b>Derivative assets <sup>(1)</sup></b>				
Interest rate swaps	538	—	538	—
Foreign exchange contracts	148	—	148	—
Other contracts	7	—	7	—
<b>Total derivative assets</b>	<b>693</b>	<b>—</b>	<b>693</b>	<b>—</b>
<b>Other investment securities, at fair value:</b>				
Money market mutual fund	165	165	—	—
Other investments	4	—	4	—
<b>Total other investment securities, at fair value</b>	<b>169</b>	<b>165</b>	<b>4</b>	<b>—</b>
<b>Total assets</b>	<b>\$21,516</b>	<b>\$177</b>	<b>\$21,339</b>	<b>\$—</b>
<b>Derivative liabilities <sup>(1)</sup></b>				
Interest rate swaps	\$379	\$—	\$379	\$—
Foreign exchange contracts	149	—	149	—
Other contracts	5	—	5	—
<b>Total derivative liabilities</b>	<b>533</b>	<b>—</b>	<b>533</b>	<b>—</b>
<b>Total liabilities</b>	<b>\$533</b>	<b>\$—</b>	<b>\$533</b>	<b>\$—</b>

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

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

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

There were no Level 3 assets measured at fair value on a recurring basis.

**Fair Value Option**

The Company elected to account for residential mortgage loans held for sale and certain commercial and commercial real estate loans held for sale at fair value. Applying fair value accounting to the residential mortgage loans held for sale better aligns the reported results of the economic changes in the value of these loans and their related hedge instruments. Certain commercial and commercial real estate held for sale loans are managed by a commercial secondary loan desk that provides liquidity to banks, finance companies and institutional investors. Applying fair value accounting to this portfolio is appropriate because the Company holds these loans with the intent to sell within short-term periods.

*Residential Mortgage Loans Held for Sale*

The fair value of residential mortgage loans held for sale is derived from observable mortgage security prices and includes adjustments for loan servicing value, agency guarantee fees, and other loan level attributes which are mostly observable in the marketplace. Credit risk does not significantly impact the valuation since these loans are sold shortly after origination. Therefore, the Company classifies the residential mortgage loans held for sale in Level 2 of the fair value hierarchy.

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The election of the fair value option for financial assets and financial liabilities is optional and irrevocable. The loans accounted for under the fair value option are initially measured at fair value (i.e., acquisition cost) when the financial asset is acquired. Subsequent changes in fair value are recognized in mortgage banking fees on the Consolidated Statements of Operations. The Company recognized changes in fair value in mortgage banking fees of \$6 million, (\$5) million, and (\$2) million for the years ended December 31, 2017, 2016 and 2015, respectively.

Interest income on residential mortgage loans held for sale is calculated based on the contractual interest rate of the loan and is recorded in interest income.

*Commercial and Commercial Real Estate Loans Held for Sale*

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

There were no loans in this portfolio that were 90 days or more past due or nonaccruing as of December 31, 2017. The loans accounted for under the fair value option are initially measured at fair value when the financial asset is recognized. Subsequent changes in fair value are recognized in current earnings. Since all loans in the Company's commercial trading portfolio consist of floating rate obligations, all changes in fair value are due to changes in credit risk. Such credit-related fair value changes may include observed changes in overall credit spreads and/or changes to the creditworthiness of an individual borrower. Unsettled trades within the commercial trading portfolio are not recognized on the Consolidated Balance Sheets and represent off-balance sheet commitments. Refer to Note 18 "Commitments and Contingencies" for further information.

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

(in millions)	December 31, 2017			December 31, 2016		
	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
Residential mortgage loans held for sale, at fair value	\$326	\$326	\$—	\$504	\$505	(\$1)
Commercial and commercial real estate loans held for sale, at fair value	171	171	—	79	79	—

Interest income on commercial and commercial real estate loans held for sale is calculated based on the contractual interest rate of the loan and is recorded in interest income. The Company recognized \$4 million, \$4 million and \$3 million for the years ended December 31, 2017, 2016 and 2015, respectively, in other noninterest income related to its commercial trading portfolio.

**Nonrecurring Fair Value Measurements**

Fair value is also used on a nonrecurring basis to evaluate certain assets for impairment or for disclosure purposes. Examples of nonrecurring uses of fair value include MSRs accounted for by the amortization method, loan impairments for certain loans and leases, and goodwill.

The following valuation techniques are utilized to measure significant assets for which the Company utilizes fair value on a nonrecurring basis:

*Impaired Loans*

The carrying amount of collateral-dependent impaired loans is compared to the appraised value of the collateral less costs to dispose and is classified as Level 2. Any excess of carrying amount over the appraised value is charged to the ALLL.

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*Mortgage Servicing Rights*

MSRs do not trade in an active market with readily observable prices. MSRs are classified as Level 3 since the valuation methodology utilizes significant unobservable inputs. The fair value was calculated using a discounted cash flow model, which used assumptions, including weighted-average life, weighted-average constant prepayment rate and weighted-average discount rate. Refer to Note 8 “Mortgage Banking” for more information.

*Foreclosed assets*

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

*Leased assets*

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

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

(in millions)	Year Ended December 31,		
	2017	2016	2015
Impaired collateral-dependent loans	(\$35)	(\$33)	(\$32)
MSRs	2	4	9
Foreclosed assets	(3)	(3)	(3)
Leased assets	(15)	11	—

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

(in millions)	December 31, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Impaired collateral-dependent loans	\$393	\$—	\$393	\$—	\$355	\$—	\$355	\$—
MSRs	218	—	—	218	182	—	—	182
Foreclosed assets	31	—	31	—	44	—	44	—
Leased assets	112	—	112	—	158	—	158	—

**Disclosures about Fair Value of Financial Instruments**

Following is a description of valuation methodologies used to estimate the fair value of financial instruments for disclosure purposes (these instruments are not recorded in the financial statements at fair value):

*Securities held to maturity*

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

*Other investment securities, at cost*

The cost basis of other investment securities, at cost, such as FHLB stock and FRB stock, is assumed to approximate the fair value of these securities. As a member of the FHLB and FRB, the Company is required to hold FHLB and FRB stock. The stock can be sold only to the FHLB and FRB upon termination of membership, or redeemed at the FHLB's or FRB's sole discretion. The stock may only be sold or redeemed at par, and therefore the cost basis represents the best estimate of fair value.

*Loans and leases*

For loans and leases not recorded at fair value on a recurring basis that are not accounted for as collateral-dependent impaired loans, fair value is estimated by using one of two methods: a discounted cash flow method or

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a securitization method. The discounted cash flow method involves discounting the expected future cash flows using current rates which a market participant would likely use to value similar pools of loans. Inputs used in this method include observable information such as contractual cash flows (net of servicing cost) and unobservable information such as estimated prepayment speeds, credit loss exposures, and discount rates. The securitization method involves utilizing market securitization data to value the assets as if a securitization transaction had been executed. Inputs used include observable market-based MBS data and pricing adjustments based on unobservable data reflecting the liquidity risk, credit loss exposure and other characteristics of the underlying loans. The internal risk-weighted balances of loans are grouped by product type for purposes of these estimated valuations. For nonaccruing loans, fair value is estimated by discounting management's estimate of future cash flows with a discount rate commensurate with the risk associated with such assets. Fair value of collateral-dependent loans is primarily based on the appraised value of the collateral.

*Other loans held for sale*

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

*Deposits*

The fair value of demand deposits, checking with interest accounts, regular savings, money market accounts, and other deposits is the amount payable on demand at the balance sheet date. The fair value of term deposits is estimated by discounting the expected future cash flows using rates currently offered for deposits of similar remaining maturities.

*Federal funds purchased and securities sold under agreements to repurchase, other short-term borrowed funds, and long-term borrowed funds*

Rates currently available to the Company for debt of similar terms and remaining maturities are used to discount the expected cash flows of existing debt.

The following table presents the estimated fair value for financial instruments not recorded at fair value in the Consolidated Financial Statements. The carrying amounts are recorded in the Consolidated Balance Sheets under the indicated captions:

(in millions)	December 31, 2017							
	Total		Level 1		Level 2		Level 3	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial Assets:</b>								
Securities held to maturity	\$4,685	\$4,668	\$—	\$—	\$4,685	\$4,668	\$—	\$—
Other investment securities, at cost	722	722	—	—	722	722	—	—
Other loans held for sale	221	221	—	—	—	—	221	221
Loans and leases	110,617	111,168	—	—	393	393	110,224	110,775
<b>Financial Liabilities:</b>								
Deposits	115,089	115,039	—	—	115,089	115,039	—	—
Federal funds purchased and securities sold under agreements to repurchase	815	815	—	—	815	815	—	—
Other short-term borrowed funds	1,856	1,856	—	—	1,856	1,856	—	—
Long-term borrowed funds	11,765	11,891	—	—	11,765	11,891	—	—

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

**NOTE 20 - OTHER INCOME**

The following table presents the details of other income:

(in millions)	Year Ended December 31,		
	2017	2016	2015
Bank-owned life insurance income	\$54	\$54	\$56
Other	37	105	50
Other income	\$91	\$159	\$106

*Bank-Owned Life Insurance*

Bank-owned life insurance is stated at its cash surrender value. The Company is the beneficiary of life insurance policies on current and former officers and selected employees of the Company.

**NOTE 21 - OTHER OPERATING EXPENSE**

The following table presents the details of other operating expense:

(in millions)	Year Ended December 31,		
	2017	2016	2015
Deposit insurance	\$137	\$120	\$115
Promotional expense	105	98	101
Settlements and operating losses	54	62	43
Other	251	246	271
Other operating expense	\$547	\$526	\$530

**NOTE 22 - INCOME TAXES**

The Company uses an asset and liability (balance sheet) approach for financial accounting and reporting of income taxes. This results in two components of income tax expense: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the current period. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. These gross deferred tax assets and liabilities represent decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences in the bases of assets and liabilities, as measured by tax laws, and their bases, as reported in the Consolidated Financial Statements.

The Company also assesses the probability that the positions taken, or expected to be taken, in its income tax returns will be sustained by taxing authorities. A “more likely than not” (more than 50 percent) recognition threshold must be met before a tax benefit can be recognized. Tax positions that are more likely than not to be sustained are reflected in the Company’s Consolidated Financial Statements.

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Total income tax expense is presented below:

(in millions)	Year Ended December 31,		
	2017	2016	2015
Income tax expense	\$260	\$489	\$423
Tax effect of changes in OCI	(7)	(168)	(12)
<b>Total comprehensive income tax expense</b>	<b>\$253</b>	<b>\$321</b>	<b>\$411</b>

Components of income tax expense are presented below:

(in millions)	Current	Deferred	Total
<b>Year Ended December 31, 2017</b>			
U.S. federal	\$376	(\$142)	\$234
State and local	20	6	26
<b>Total</b>	<b>\$396</b>	<b>(\$136)</b>	<b>\$260</b>
<b>Year Ended December 31, 2016</b>			
U.S. federal	\$292	\$159	\$451
State and local	44	(6)	38
<b>Total</b>	<b>\$336</b>	<b>\$153</b>	<b>\$489</b>
<b>Year Ended December 31, 2015</b>			
U.S. federal	\$162	\$225	\$387
State and local	12	24	36
<b>Total</b>	<b>\$174</b>	<b>\$249</b>	<b>\$423</b>

The effective income tax rate differed from the U.S. federal income tax rate of 35% in 2017, 2016 and 2015 as presented below:

(in millions, except ratio data)	Year Ended December 31,					
	2017		2016		2015	
	Amount	Rate	Amount	Rate	Amount	Rate
U.S. Federal income tax expense and tax rate	\$669	35.0 %	\$537	35.0 %	\$442	35.0 %
Increase (decrease) resulting from:						
2017 Tax Legislation	(331)	(17.3%)	—	—	—	—
State and local income taxes (net of federal benefit)	46	2.4	38	2.5	27	2.1
Bank-owned life insurance	(19)	(1.0)	(19)	(1.2)	(20)	(1.6)
Tax-exempt interest	(21)	(1.1)	(19)	(1.3)	(17)	(1.3)
Tax advantaged investments (including related credits)	(51)	(2.7)	(31)	(2.0)	(16)	(1.2)
Other tax credits	(3)	(0.1)	(14)	(0.9)	—	—
Adjustments for uncertain tax positions	(23)	(1.2)	—	—	—	—
Non-deductible expenses	—	—	—	—	8	0.6
Other	(7)	(0.4)	(3)	(0.2)	(1)	(0.1)
<b>Total income tax expense and tax rate</b>	<b>\$260</b>	<b>13.6 %</b>	<b>\$489</b>	<b>31.9 %</b>	<b>\$423</b>	<b>33.5 %</b>

On December 22, 2017, President Trump signed the 2017 Tax Legislation which included a reduction in the corporate tax rate from 35% to 21%. For Citizens, this required a revaluation of the Company's net deferred tax liability with a corresponding adjustment to current tax expense, and resulted in a \$331 million net tax benefit. Included in this net tax benefit was \$145 million of expense related to the revaluation of the Company's deferred tax assets associated with unrealized losses in AOCI. FASB standards in-place at December 31, 2017 required the Company to revalue all deferred taxes, including those related to balances in AOCI, through current tax expense. As a result, the Company's unrealized loss balance in AOCI was not revalued to reflect the new corporate tax rate. This impact, commonly referred to as the "stranded tax effect", was taken under consideration by FASB in January 2018 to address concerns primarily raised by banking institutions, including distortion of net income and regulatory capital. In February 2018, to address the "stranded tax effect", FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which provides entities the election to reclassify the difference between the new and old

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corporate tax rates resulting from the 2017 Tax Legislation between retained earnings and AOCI for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company has retrospectively adopted ASU 2018-02, elected to reclassify \$145 million between AOCI and retained earnings, including indirect impacts from the decreased federal tax effect on future state tax benefits, and reflected this reclassification in the Company's 2017 Consolidated Financial Statements, included in this report.

The decrease in the effective tax rate from 2015 to 2016 is primarily attributable to the benefits of federal and state tax credits.

The effective income tax rate for the year ended December 31, 2015 reflected the adoption of ASU No. 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects*. The application of this guidance, which began on January 1, 2015, resulted in the reclassification of the amortization of these investments to income tax expense from noninterest income. Additionally, the 2015 effective tax rate was affected by the impact of non-deductible permanent expense items incurred by the Company in 2015.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

(in millions)	December 31,	
	2017	2016
<b>Deferred tax assets:</b>		
Other comprehensive income	\$271	\$409
Allowance for credit losses	310	471
State net operating loss carryforwards	88	75
Accrued expenses not currently deductible	40	129
Investment and other tax credit carryforwards	65	52
Deferred income	—	22
Fair value adjustments	27	40
Other	—	6
<b>Total deferred tax assets</b>	<b>801</b>	<b>1,204</b>
<b>Valuation allowance</b>	<b>(105)</b>	<b>(107)</b>
<b>Deferred tax assets, net of valuation allowance</b>	<b>696</b>	<b>1,097</b>
<b>Deferred tax liabilities:</b>		
Leasing transactions	525	881
Amortization of intangibles	352	522
Depreciation	182	234
Pension and other employee compensation plans	110	103
Partnerships	37	22
Deferred Income	27	—
MSRs	34	49
<b>Total deferred tax liabilities</b>	<b>1,267</b>	<b>1,811</b>
<b>Net deferred tax liability</b>	<b>\$571</b>	<b>\$714</b>

Certain 2016 balances in the table above were reclassified to better conform to the current year presentation. These adjustments included presenting the deferred tax liability attributable to partnerships separately which in 2016 was presented in the other deferred tax liability category offset by certain deferred tax assets.

Deferred tax assets are recognized for net operating loss carryforwards and tax credit carryforwards. Valuation allowances are recorded as necessary to reduce deferred tax assets to the amounts that management concludes are more likely than not to be realized.

At December 31, 2017, the Company had state tax net operating loss carryforwards of \$1.4 billion. Limitations on the ability to realize these carryforwards are reflected in the associated valuation allowance.

At December 31, 2017, the Company had a valuation allowance of \$105 million against various deferred tax assets related to state net operating losses and state tax credits, as it is management's current assessment that it is more likely than not that the Company will not recognize a portion of the deferred tax asset related to these items. The valuation allowance decreased \$2 million during the year ended December 31, 2017.

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Effective with the fiscal year ended September 30, 1997, the reserve method for bad debts was no longer permitted for tax purposes. The repeal of the reserve method required the recapture of the reserve balance in excess of certain base year reserve amounts attributable to years ended prior to 1988. At December 31, 2017, the Company's base year loan loss reserves attributable to years ended prior to 1988, for which no deferred income taxes have been provided, was \$557 million. This base year reserve may become taxable if certain distributions are made with respect to the stock of the Company or if the Company ceases to qualify as a bank for tax purposes. No actions are planned that would cause this reserve to become wholly or partially taxable.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal or state and local income tax examinations by major tax authorities for years before 2014.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is presented below:

(in millions)	December 31,		
	2017	2016	2015
Balance at the beginning of the year	\$42	\$62	\$72
Gross decrease for tax positions related to prior years	(27)	(19)	(6)
Gross increase for tax positions related to prior years	—	1	—
Decreases for tax positions as a result of the lapse of the statutes of limitations	(1)	(2)	(3)
Decreases for tax positions related to settlements with taxing authorities	(9)	—	(1)
Balance at end of year	\$5	\$42	\$62

Tax positions are measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The difference between the benefit recognized for a position and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit.

Included in the total amount of unrecognized tax benefits at December 31, 2017, are potential benefits of \$5 million that, if recognized, would impact the effective tax rate.

The Company classifies interest and penalties related to unrecognized tax benefits as a component of income taxes. The Company released \$8 million, accrued \$8 million, and accrued less than \$1 million of interest expense through December 31, 2017, 2016, and 2015, respectively. The Company had approximately \$1 million, \$22 million, and \$14 million accrued for the payment of interest at December 31, 2017, 2016, and 2015, respectively. There were no amounts accrued for penalties as of December 31, 2017, 2016, and 2015, and there were no penalties recognized during 2017, 2016, and 2015.

**NOTE 23 - EARNINGS PER SHARE**

Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each period. Net income available to common stockholders represents net income after preferred stock dividends, accretion of the discount on preferred stock issuances, and gains or losses from any repurchases of preferred stock. Diluted EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each period, plus potential dilutive shares such as share-based payment awards and warrants using the treasury stock method.

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(in millions, except share and per-share data)	Year Ended December 31,		
	2017	2016	2015
<b>Numerator (basic and diluted):</b>			
Net income	\$1,652	\$1,045	\$840
Less: Preferred stock dividends	14	14	7
Net income available to common stockholders	\$1,638	\$1,031	\$833
<b>Denominator:</b>			
Weighted-average common shares outstanding - basic	502,157,440	522,093,545	535,599,731
Dilutive common shares: share-based awards	1,527,651	1,837,173	2,621,167
Weighted-average common shares outstanding - diluted	503,685,091	523,930,718	538,220,898
<b>Earnings per common share:</b>			
Basic	\$3.26	\$1.97	\$1.55
Diluted	3.25	1.97	1.55

Potential dilutive common shares are excluded from the computation of diluted EPS in the periods where the effect would be antidilutive. The diluted EPS computation for the year ended December 31, 2017 excluded 533 average share-based awards because their inclusion would have been antidilutive. The Company did not have any antidilutive shares for the years ended December 31, 2016 and 2015.

**NOTE 24 - REGULATORY MATTERS**

As a bank holding company, the Company is subject to regulation and supervision by the FRB. The primary subsidiaries of the Company are its two insured depository institutions CBNA, a national banking association whose primary federal regulator is the OCC, and CBPA, a Pennsylvania-chartered savings bank regulated by the Department of Banking of the Commonwealth of Pennsylvania and supervised by the FDIC, its primary federal regulator. Under the U.S. Basel III capital framework, the Company and its banking subsidiaries must meet specific minimum requirements for the following ratios: common equity tier 1 capital, tier 1 capital, total capital, and tier 1 leverage. In addition, the Company must not be subject to a written agreement, order or capital directive with any of its regulators. Failure to meet minimum capital requirements can result in the initiation of certain actions that, if undertaken, could have a material effect on the Company's Consolidated Financial Statements.

On December 22, 2017, President Trump signed the 2017 Tax Legislation which included a reduction in the corporate tax rate from 35% to 21%. For Citizens, this required a revaluation of the Company's net deferred tax liability with a corresponding adjustment to current tax expense, and resulted in a \$331 million net tax benefit. Included in this net tax benefit was \$145 million of expense related to the revaluation of the Company's deferred tax assets associated with unrealized losses in AOCI. FASB standards in-place at December 31, 2017 required the Company to revalue all deferred taxes, including those related to balances in AOCI, through current tax expense. As a result, the Company's unrealized loss balance in AOCI was not revalued to reflect the new corporate tax rate. This impact, commonly referred to as the "stranded tax effect", was taken under consideration by FASB in January 2018 to address concerns primarily raised by banking institutions, including distortion of net income and regulatory capital. In February 2018, to address the "stranded tax effect", FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which provides entities the election to reclassify the difference between the new and old corporate tax rates resulting from the 2017 Tax Legislation between retained earnings and AOCI for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company has retrospectively adopted ASU 2018-02, elected to reclassify \$145 million between AOCI and retained earnings, including indirect impacts from the decreased federal tax effect on future state tax benefits, and reflected this reclassification in the Company's 2017 Consolidated Financial Statements, included in this report.

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

(in millions, except ratio data)	Transitional Basel III					
	Actual		Minimum Capital Adequacy		FDIA Requirements	
	Amount	Ratio	Amount	Ratio (5)	Classification as Well-capitalized (6)	Ratio
<i>As of December 31, 2017</i>						
Common equity tier 1 capital (1)	\$14,309	11.2%	\$7,342	5.750%	\$8,300	6.5%
Tier 1 capital (2)	14,556	11.4	9,258	7.250	10,215	8.0
Total capital (3)	17,781	13.9	11,812	9.250	12,769	10.0
Tier 1 leverage (4)	14,556	10.0	5,824	4.000	7,280	5.0
<i>As of December 31, 2016</i>						
Common equity tier 1 capital (1)	\$13,822	11.2%	\$6,348	5.125%	\$8,051	6.5%
Tier 1 capital (2)	14,069	11.4	8,206	6.625	9,909	8.0
Total capital (3)	17,347	14.0	10,683	8.625	12,386	10.0
Tier 1 leverage (4)	14,069	9.9	5,667	4.000	7,084	5.0

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

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

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

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

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

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

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

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

For the year ended December 31, 2017, the Company paid total common dividends of \$322 million and repurchased outstanding common shares for \$820 million, compared to \$241 million in common dividends paid, \$430 million in outstanding common shares repurchased and \$625 million of qualified subordinated notes repurchased for the year ended December 31, 2016. Additionally, the Company paid total preferred dividends of \$14 million for both periods.

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

**NOTE 25 - BUSINESS OPERATING SEGMENTS**

The Company is managed by its Chief Executive Officer on a segment basis. The Company's two business operating segments are Consumer Banking and Commercial Banking. The business segments are determined based on the products and services provided, or the type of customer served. Each segment has one or more segment heads who report directly to the Chief Executive Officer. The Chief Executive Officer has final authority over resource allocation decisions and performance assessment. The business segments reflect this management structure and the manner in which financial information is currently evaluated by the Chief Executive Officer.

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**Reportable Segments**

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

*Consumer Banking*

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

*Commercial Banking*

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

**Non-segment Operations**

*Other*

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 loans and leases placed in runoff in the third quarter of 2016), and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses, including income tax expense. In addition to non-segment operations, Other includes goodwill and any associated goodwill impairment charges. For impairment testing purposes, the Company allocates goodwill to its Consumer Banking and Commercial Banking reporting units. For management reporting purposes, the Company presents the goodwill balance (and any related impairment charges) in Other.

(in millions)	As of and for the Year Ended December 31, 2017			
	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	\$2,651	\$1,411	\$111	\$4,173
Noninterest income	905	538	91	1,534
Total revenue	3,556	1,949	202	5,707
Noninterest expense	2,593	772	109	3,474
Profit before provision for credit losses	963	1,177	93	2,233
Provision for credit losses	265	19	37	321
Income before income tax expense (benefit)	698	1,158	56	1,912
Income tax expense (benefit)	246	384	(370)	260
Net income	\$452	\$774	\$426	\$1,652
Total average assets	\$59,714	\$49,747	\$40,492	\$149,953

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(in millions)	As of and for the Year Ended December 31, 2016			
	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	\$2,443	\$1,288	\$27	\$3,758
Noninterest income	883	466	148	1,497
Total revenue	3,326	1,754	175	5,255
Noninterest expense	2,547	741	64	3,352
Profit before provision for credit losses	779	1,013	111	1,903
Provision for credit losses	243	47	79	369
Income before income tax expense (benefit)	536	966	32	1,534
Income tax expense (benefit)	191	335	(37)	489
Net income	\$345	\$631	\$69	\$1,045
Total average assets	\$56,388	\$47,159	\$39,636	\$143,183

(in millions)	As of and for the Year Ended December 31, 2015			
	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	\$2,198	\$1,162	\$42	\$3,402
Noninterest income	910	415	97	1,422
Total revenue	3,108	1,577	139	4,824
Noninterest expense	2,456	709	94	3,259
Profit before provision for credit losses	652	868	45	1,565
Provision for credit losses	252	(13)	63	302
Income (loss) before income tax expense (benefit)	400	881	(18)	1,263
Income tax expense (benefit)	138	302	(17)	423
Net income (loss)	\$262	\$579	(\$1)	\$840
Total average assets	\$52,848	\$42,800	\$39,422	\$135,070

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

**FTP adjustments**

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

**Provision for credit losses allocations**

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

**Income tax allocations**

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

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**Expense allocations**

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

**Goodwill**

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

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

**NOTE 26 - PARENT COMPANY FINANCIALS**

**Condensed Statements of Operations**

(in millions)	Year Ended December 31,		
	2017	2016	2015
<b>OPERATING INCOME:</b>			
Income from consolidated subsidiaries and excluding equity in undistributed earnings:			
Dividends from banking subsidiaries	\$1,055	\$555	\$345
Interest	43	53	54
Management and service fees	31	26	20
Income from nonbank subsidiaries and excluding equity in undistributed earnings:			
Dividends from nonbank subsidiaries	4	—	—
Interest	1	—	—
Equity securities gains	1	3	3
All other operating income	1	7	4
<b>Total operating income</b>	<b>1,136</b>	<b>644</b>	<b>426</b>
<b>OPERATING EXPENSE:</b>			
Salaries and employee benefits	40	37	15
Interest expense	97	99	108
All other expenses	22	15	38
<b>Total operating expense</b>	<b>159</b>	<b>151</b>	<b>161</b>
<b>Income before taxes and undistributed income</b>	<b>977</b>	<b>493</b>	<b>265</b>
Income taxes	(10)	(26)	(29)
<b>Income before undistributed earnings of subsidiaries</b>	<b>987</b>	<b>519</b>	<b>294</b>
<b>Equity in undistributed earnings of subsidiaries:</b>			
Bank	655	522	543
Nonbank	10	4	3
<b>Net income</b>	<b>\$1,652</b>	<b>\$1,045</b>	<b>\$840</b>
<b>Other comprehensive (loss) income, net of income taxes:</b>			
Net pension plan activity arising during the period	(\$1)	(\$2)	\$1
Net unrealized derivative instrument gains (losses) arising during the period	1	(8)	2
Net unrealized securities losses arising during the period	—	—	(2)
Other comprehensive (loss) income activity of the Parent Company, net of income taxes	—	(10)	1
Other comprehensive loss activity of Bank subsidiaries, net of income taxes	(7)	(271)	(16)
Total other comprehensive loss, net of income taxes	(7)	(281)	(15)
<b>Total comprehensive income</b>	<b>\$1,645</b>	<b>\$764</b>	<b>\$825</b>

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



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dividends of \$322 million in 2017 , \$241 million in 2016 , and \$214 million in 2015 . The Company also declared and paid preferred stock dividends of \$14 million in 2017 , \$14 million in 2016 and \$7 million in 2015.

**Condensed Balance Sheets**

(in millions)	December 31, 2017	December 31, 2016
<b>ASSETS:</b>		
Cash and due from banks	\$563	\$671
Loans and advances to:		
Bank subsidiaries	1,160	1,156
Nonbank subsidiaries	70	20
Investments in subsidiaries:		
Bank subsidiaries	20,765	20,116
Nonbank subsidiaries	73	50
Other assets	125	128
<b>TOTAL ASSETS</b>	<b>\$22,756</b>	<b>\$22,141</b>
<b>LIABILITIES:</b>		
Long-term borrowed funds due to:		
Unaffiliated companies	\$2,320	\$2,318
Other liabilities	166	76
<b>TOTAL LIABILITIES</b>	<b>2,486</b>	<b>2,394</b>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>20,270</b>	<b>19,747</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$22,756</b>	<b>\$22,141</b>

**CITIZENS FINANCIAL GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Condensed Cash Flow Statements**

(in millions)	Year Ended December 31,		
	2017	2016	2015
<b>OPERATING ACTIVITIES</b>			
Net income	\$1,652	\$1,045	\$840
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	(11)	5	49
Gain on sales of assets	(1)	(3)	(3)
Equity in undistributed earnings of subsidiaries	(665)	(526)	(546)
Increase (decrease) in other liabilities	99	(19)	(48)
Decrease (increase) in other assets	5	35	(16)
Other operating, net	(1)	(4)	3
Total adjustments	(574)	(512)	(561)
Net cash provided by operating activities	1,078	533	279
<b>INVESTING ACTIVITIES</b>			
Proceeds from sales of securities available for sale	—	—	8
Investments in and advances to subsidiaries	(230)	(40)	(215)
Repayment of investments in and advances to subsidiaries	167	588	376
Other investing, net	(1)	(2)	—
Net cash (used) provided by investing activities	(64)	546	169
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuance of long-term borrowed funds	—	349	1,000
Repayments of long-term borrowed funds	—	(625)	(750)
Proceeds from issuance of common stock	34	22	27
Treasury stock purchased	(820)	(430)	(500)
Net proceeds from issuance of preferred stock	—	—	247
Dividends declared and paid to common stockholders	(322)	(241)	(214)
Dividends declared and paid to preferred stockholders	(14)	(14)	(7)
Net cash used by financing activities	(1,122)	(939)	(197)
(Decrease) increase in cash and due from banks	(108)	140	251
Cash and due from banks at beginning of year	671	531	280
Cash and due from banks at end of year	\$563	\$671	\$531

**NOTE 27 - SUBSEQUENT EVENTS**

The Company has evaluated the impacts of events that have occurred subsequent to December 31, 2017 through the filing date of the Consolidated Financial Statements with the SEC. Based on this evaluation, the Company has determined none of these events were required to be recognized or disclosed in the Consolidated Financial Statements and related Notes.

# CITIZENS FINANCIAL GROUP, INC.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

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

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

Management's Annual Report on Internal Control over Financial Reporting, the Report of the Independent Registered Public Accounting Firm on the Consolidated Financial Statements, and the Report of the Independent Registered Public Accounting Firm on Internal Control over Financial Reporting are included in Item 8 — Financial Statements and Supplementary Data, included in this report.

## ITEM 9B. OTHER INFORMATION

None.

# CITIZENS FINANCIAL GROUP, INC.

## PART III

We refer in Part III of this report to relevant sections of our 2018 Proxy Statement for the 2018 annual meeting of shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the close of our 2017 fiscal year. Portions of our 2018 Proxy Statement, including the sections we refer to in this report, are incorporated by reference into this report.

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information required by this item is presented under the captions “Corporate Governance”— “Election of Directors” and “Board Governance and Oversight,” and “Section 16(a) Beneficial Ownership Reporting Compliance” of our 2018 Proxy Statement, which is incorporated by reference into this item.

### **ITEM 11. EXECUTIVE COMPENSATION**

Information required by this item is presented under the captions “Compensation Matters” — “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Executive Compensation,” “Termination of Employment and Change of Control,” “Director Compensation,” “Compensation Risk Assessment,” and “CEO Pay Ratio” of our 2018 Proxy Statement, which is incorporated by reference into this item.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information required by this item is presented under the caption “Security Ownership of Certain Beneficial Owners and Management” of our 2018 Proxy Statement, which is incorporated by reference into this item.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information required by this item is set forth under the captions “Corporate Governance” — “Board Governance and Oversight — Director Independence” and “Related Person Transactions” of our 2018 Proxy Statement, which is incorporated by reference into this item.

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information required by this item is presented under the captions “Audit Matters” — “Pre-approval of Independent Auditor Services” and “Independent Registered Public Accounting Firm Fees” of our 2018 Proxy Statement, which is incorporated by reference into this item.

# CITIZENS FINANCIAL GROUP, INC.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) *Financial Statements of Citizens Financial Group, Inc. included in this report:*

- Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements;
- Consolidated Balance Sheets as of December 31, 2017 and 2016;
- Consolidated Statements of Operations for the Years Ended December 31, 2017, 2016 and 2015;
- Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015;
- Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2017, 2016 and 2015;
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015; and
- Notes to Consolidated Financial Statements.

(a)(2) *Financial Statement Schedules*

All financial statement schedules for the Registrant have been included in the audited Consolidated Financial Statements or the related footnotes in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report, or are either inapplicable or not required.

(a)(3) *Exhibits*

[3.1 Amended and Restated Certificate of Incorporation of the Registrant as in effect on the date hereof \(incorporated herein by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q, filed November 14, 2014\)](#)

[3.2 Bylaws of the Registrant \(as amended and restated on October 20, 2016\) \(incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed October 24, 2016\)](#)

[4.1 Senior Debt Indenture between the Company and The Bank of New York Mellon dated as of October 28, 2015 \(incorporated by reference to Exhibit 4.1 of Registration Statement on Form S-3, filed October 29, 2015\)](#)

[4.2 Subordinated Indenture between the Company and The Bank of New York Mellon dated as of September 28, 2012 \(incorporated herein by reference to Exhibit 4.2 of the Registration Statement on Form S-1, filed July 28, 2015\)](#)

[4.3 Form of Certificate representing the Series A Preferred Stock \(incorporated herein by reference to Exhibit 4.2 of the Current Report on Form 8-K, filed April 6, 2015\)](#)

[4.4 Agreement to furnish to the Securities and Exchange Commission upon request a copy of instruments defining the rights of holders of certain long-term debt of the registrant and consolidated subsidiaries\\*](#)

[10.1 Trademark License Agreement between the Registrant and The Royal Bank of Scotland Group plc \(incorporated herein by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q, filed November 14, 2014\)](#)

[10.2 Citizens Financial Group, Inc. Converted Equity 2010 Deferral Plan \(incorporated herein by reference to Exhibit 10.7 of the Quarterly Report on Form 10-Q, filed November 14, 2014\)†](#)

[10.3 Form of The Royal Bank of Scotland Group, plc 2010 Deferral Plan Award Certificate \(incorporated herein by reference to Exhibit 10.23 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014\)†](#)

[10.4 Citizens Financial Group, Inc. Converted Equity 2010 Long Term Incentive Plan \(incorporated herein by reference to Exhibit 10.8 of the Quarterly Report on Form 10-Q, filed November 14, 2014\)†](#)

## CITIZENS FINANCIAL GROUP, INC.

- [10.5 Form of The Royal Bank of Scotland Group, plc CFG Special \(IPO\) Award Certificate \(incorporated herein by reference to Exhibit 10.35 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014\)†](#)
- [10.6 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan \(incorporated herein by reference to Exhibit 10.11 of the Quarterly Report on Form 10-Q, filed November 14, 2014\)†](#)
- [10.7 Amended and Restated Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan as of June 23, 2016 \(incorporated herein by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q, filed August 5, 2016\)†](#)
- [10.8 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Agreement for 2015 Awards \(incorporated herein by reference to Exhibit 10.10 of the Annual Report on Form 10-K, filed March 3, 2015\)†](#)
- [10.9 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Award Agreement for 2016 Awards \(incorporated herein by reference to Exhibit 10.11 of the Annual Report on Form 10-K, filed February 26, 2016\)†](#)
- [10.10 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Award Agreement \(incorporated herein by reference to Exhibit 10.10 of the Annual Report on Form 10-K, Filed February 24, 2017\)†](#)
- [10.11 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Award Agreement\\*†](#)
- [10.12 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Bruce Van Saun Relating to Annual Awards \(incorporated herein by reference to Exhibit 10.11 of the Annual Report on Form 10-K, Filed February 24, 2017\)†](#)
- [10.13 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Share Unit Award Agreement for 2015 Awards \(incorporated herein by reference to Exhibit 10.11 of the Annual Report on Form 10-K, filed March 3, 2015\)†](#)
- [10.14 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Share Award Agreement for 2016 Awards \(incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q, filed May 9, 2016\)†](#)
- [10.15 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Stock Award Agreement \(incorporated herein by reference to Exhibit 10.14 of the Annual Report on Form 10-K, Filed February 24, 2017\)†](#)
- [10.16 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Amendment to Form of Performance Stock Award Agreement\) \(incorporated herein by reference to Exhibit 10.3 of the Annual Report on Form 10-Q, Filed August 3, 2017\)†](#)
- [10.17 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Stock Award Agreement\\*†](#)
- [10.18 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Performance Stock Unit Award Agreement for Bruce Van Saun Relating to Annual Awards \(incorporated herein by reference to Exhibit 10.15 of the Annual Report on Form 10-K, Filed February 24, 2017\)†](#)
- [10.19 Citizens Financial Group, Inc. Amendment to Performance Share Unit Award Agreement/Restricted Stock Unit Agreement/Deferred Cash Agreement Terms and Conditions \(incorporated herein by reference to Exhibit 10.14 of the Annual Report on Form 10-K, filed February 26, 2016\)†](#)
- [10.20 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Role-Based Allowance - Share Award Agreement \(incorporated herein by reference to Exhibit 10.12 of the Annual Report on Form 10-K filed March 3, 2015\)†](#)

## CITIZENS FINANCIAL GROUP, INC.

- [10.21 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Amendment to Role-Based Allowance Share Award Agreement \(incorporated herein by reference to Exhibit 10.4 of the Quarterly Report on Form 10-Q filed August 3, 2017\)†](#)
- [10.22 Citizens Financial Group, Inc. 2014 Employee Stock Purchase Plan \(incorporated herein by reference to Exhibit 99.3 of the Registration Statement on Form S-8, filed September 26, 2014\)†](#)
- [10.23 Citizens Financial Group, Inc. Non-Employee Directors Compensation Policy original adopted as of September 29, 2014 and amended on June 25, 2015 \(incorporated herein by reference to Exhibit 10.14 of Registration Statement on Form S-1, filed July 21, 2015\)†](#)
- [10.24 Citizens Financial Group, Inc. Non-Employee Directors Compensation Policy, as amended June 22, 2017, to be effective as of August 1, 2017 \(incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed August 3, 2017\)†](#)
- [10.25 Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan \(incorporated herein by reference to Exhibit 99.2 of the Registration Statement on Form S-8, filed September 26, 2014\)†](#)
- [10.26 Amended and Restated Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan as of June 23, 2016 \(incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q, filed August 5, 2016\)†](#)
- [10.27 Form of Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan Restricted Stock Unit Award Agreement \(incorporated herein by reference to Exhibit 10.19 of the Annual Report on Form 10-K, filed February 26, 2016\)†](#)
- [10.28 Form of Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan Restricted Stock Unit Award Agreement \(incorporated herein by reference to Exhibit 10.2 of the Annual Report on Form 10-Q, Filed August 3, 2017\)†](#)
- [10.29 Amended and Restated Deferred Compensation Plan for Directors of Citizens Financial Group, Inc., effective January 1, 2009 \(incorporated herein by reference to Exhibit 10.19 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014\)†](#)
- [10.30 Form of Indemnification Agreement \(incorporated herein by reference to Exhibit 10.5 of Amendment No. 3 to Registration Statement on Form S-1, filed September 8, 2014\)†](#)
- [10.31 Amended and Restated CFG Voluntary Executive Deferred Compensation Plan, effective January 1, 2009 and amended and restated on September 1, 2014 \(incorporated herein by reference to Exhibit 10.21 of the Annual Report on Form 10-K, filed March 3, 2015\)†](#)
- [10.32 Amended and Restated Citizens Financial Group, Inc. Deferred Compensation Plan, effective January 1, 2009 \(incorporated herein by reference to Exhibit 10.20 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014\)†](#)
- [10.33 Citizens Financial Group, Inc. Form of Deferred Cash Award Agreement \(incorporated herein by reference to Exhibit 10.23 of the Annual Report on Form 10-K, filed March 3, 2015\)†](#)
- [10.34 Citizens Financial Group, Inc. Form of Deferred Cash Award Agreement for 2016 Awards \(incorporated herein by reference to Exhibit 10.28 of the Annual Report on Form 10-K, filed February 26, 2016\)†](#)
- [10.35 Citizens Financial Group, Inc. Form of Deferred Cash Award Agreement\\*\\*†](#)
- [10.36 Citizens Financial Group, Inc. Executive Severance Practice \(incorporated herein by reference to Exhibit 10.21 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014\)†](#)
- [10.37 Citizens Financial Group, Inc. Performance Formula and Incentive Plan \(incorporated herein by reference to Exhibit 10.28 of Annual Report on Form 10-K, filed March 3, 2015\)†](#)

# CITIZENS FINANCIAL GROUP, INC.

- [10.38 Amended and Restated Executive Employment Agreement, dated May 5, 2016, between the Registrant and Bruce Van Saun \(incorporated herein by reference to Exhibit 10.5 of the Quarterly Report on Form S-1, filed May 9, 2016\)†](#)
- [10.39 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement between the Registrant and Bruce Van Saun relating to the May 2016 Grant \(incorporated herein by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q filed May 9, 2016\)†](#)
- [10.40 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Performance Share Unit Award Agreement between the Registrant and Bruce Van Saun for the May 2016 Grant \(incorporated herein by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q filed May 9, 2016\)†](#)
- [10.41 Retirement Agreement, dated March 9, 2015, between the Registrant and John Fawcett \(incorporated herein by reference to Exhibit 10.44 of Amendment No. 1 to Registration Statement on Form S-1, filed March 23, 2015\)†](#)
- [10.42 Executive Employment Agreement, dated November 3, 2016, between the Registrant and John Fawcett \(incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q, filed November 4, 2016\)†](#)
- [10.43 Executive Employment Agreement, dated March 23, 2015, between the Registrant and Donald H. McCree III and subsequent addendum dated August 2, 2017 \(incorporated herein by reference to Exhibit 10.7 of the Quarterly Report on Form 10-Q, filed August 3, 2017\)†](#)
- [10.44 Offer Letter, dated May 23, 2008, as amended on August 6, 2014, between the Registrant and Brad Conner and subsequent addendums dated August 6, 2014 and August 2, 2017 \(incorporated herein by reference to Exhibit 10.5 of the Quarterly Report on Form 10-Q, filed August 3, 2017\)†](#)
- [10.45 Executive Employment Agreement, dated July 1, 2014, between the Registrant and Stephen Gannon and subsequent addendum dated August 2, 2017 \(incorporated herein by reference to Exhibit 10.6 of the Quarterly Report on Form 10-Q, filed August 3, 2017\)†](#)
- [10.46 Executive Employment Agreement, dated March 18, 2016, between the Registrant and Randall Black \(incorporated herein by reference to Exhibit 10.4 of the Quarterly Report on Form 10-Q filed May 9, 2016\)†](#)
- [10.47 Executive Employment Agreement, dated December 13, 2016, between the Registrant and John F. Woods and subsequent addendum dated August 2, 2017 \(incorporated herein by reference to Exhibit 10.8 of the Quarterly Report on Form 10-Q, filed August 3, 2017\)†](#)
- [10.48 Supplemental Retirement Agreement, dated October 31, 1995, as amended, between Charter One Financial, Inc. and Charles J. Koch \(incorporated herein by reference to Exhibit 10.37 of Amendment No. 3 to Registration Statement on Form S-1, filed September 8, 2014\)†](#)
- [11.1 Statement re computation of earnings per share \(filed herewith as Note 23 to the audited Consolidated Financial Statements in Part II, Item 8 - Financial Statements and Supplementary Data, included in this report\)](#)
- [12.1 Computation of Ratio of Earnings to Fixed Charges\\*](#)
- [12.2 Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends\\*](#)
- [21.1 Subsidiaries of Registrant\\*](#)
- [23.1 Consent of Independent Registered Public Accounting Firm\\*](#)
- [24.1 Power of Attorney \(contained herein on signature pages\)](#)

# CITIZENS FINANCIAL GROUP, INC.

[31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\\*](#)

[31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\\*](#)

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

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

101 The following materials from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements\*

† Indicates management contract or compensatory plan or arrangement.

\* Filed herewith.

# CITIZENS FINANCIAL GROUP, INC.

## SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 22, 2018.

CITIZENS FINANCIAL GROUP, INC.

(Registrant)

By: /s/ Bruce Van Saun

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Name: Bruce Van Saun

Title: Chairman of the Board and Chief Executive  
Officer

(Principal Executive Officer)

# CITIZENS FINANCIAL GROUP, INC.

## SIGNATURES

KNOW ALL PERSONS BY THESE PRESENTS, that each of the undersigned, being a director or officer of Citizens Financial Group, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints Bruce Van Saun, John F. Woods, Stephen T. Gannon, and Randall J. Black, and each of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead in any and all capacities, to sign one or more Annual Reports for the Company's fiscal year ended December 31, 2017 on Form 10-K under the Securities Exchange Act of 1934, as amended, or such other form as any such attorney-in-fact may deem necessary or desirable, any amendments thereto, and all additional amendments thereto, each in such form as they or any one of them may approve, and to file the same with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done so that such Annual Report shall comply with the Securities Exchange Act of 1934, as amended, and the applicable Rules and Regulations adopted or issued pursuant thereto, as fully and to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitute or resubstitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
<u>/s/ Bruce Van Saun</u> Bruce Van Saun	Chairman of the Board and Chief Executive Officer (Principal Executive Officer and Director)	February 22, 2018
<u>/s/ John F. Woods</u> John F. Woods	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 22, 2018
<u>/s/ Randall J. Black</u> Randall J. Black	Executive Vice President and Controller (Principal Accounting Officer)	February 22, 2018
<u>/s/ Mark Casady</u> Mark Casady	Director	February 22, 2018
<u>/s/ Christine M. Cumming</u> Christine M. Cumming	Director	February 22, 2018
<u>/s/ Anthony Di Iorio</u> Anthony Di Iorio	Director	February 22, 2018
<u>/s/ William P. Hankowsky</u> William P. Hankowsky	Director	February 22, 2018
<u>/s/ Howard W. Hanna, III</u> Howard W. Hanna, III	Director	February 22, 2018
<u>/s/ Leo I. Higdon, Jr.</u> Leo I. Higdon, Jr.	Director	February 22, 2018
<u>/s/ Charles J. Koch</u> Charles J. Koch	Director	February 22, 2018
<u>/s/ Arthur F. Ryan</u> Arthur F. Ryan	Director	February 22, 2018
<u>/s/ Shivan S. Subramaniam</u> Shivan S. Subramaniam	Director	February 22, 2018
<u>/s/ Wendy A. Watson</u> Wendy A. Watson	Director	February 22, 2018
<u>/s/ Marita Zuraitis</u> Marita Zuraitis	Director	February 22, 2018

David Lindenauer  
Executive Vice President and Treasurer

Citizens Financial Group, Inc.  
1 Citizens Plaza  
Providence, Rhode Island 02903

Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

February 22, 2018

Subject: Citizens Financial Group, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2017 – File No. 001-36636

Dear Sirs:

Neither Citizens Financial Group, Inc. (the “Company”) nor any of its consolidated subsidiaries has outstanding any instrument with respect to its long-term debt, other than those filed as an exhibit to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, under which the total amount of securities authorized exceeds 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. In accordance with paragraph (b)(4)(iii) of Item 601 of Regulation S-K (17 CFR Sec. 229.601), the Company hereby agrees to furnish to the Securities and Exchange Commission, upon request, a copy of each instrument that defines the rights of holders of such long term debt not filed or incorporated by reference as an exhibit to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Very truly yours,

CITIZENS FINANCIAL GROUP, INC.

/s/ David Lindenauer

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David Lindenauer  
Executive Vice President and Treasurer

**CITIZENS FINANCIAL GROUP, INC.  
2014 OMNIBUS INCENTIVE PLAN**

**Restricted Stock Unit Award Agreement  
Terms and Conditions**

Unless defined in this award agreement (this “**Award Agreement**”), capitalized terms shall have the meanings assigned to them in the Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan (the “**Plan**”). In the event of a conflict among the provisions of the Plan and this Award Agreement, the provisions of the Plan shall prevail.

Section 1. *Grant of RSU Award.* Citizens Financial Group, Inc. (together with its Subsidiaries, the “**Company**”) has granted to the Participant (the “**Participant**”) an award (the “**Award**”) of the number of restricted share units (“**RSUs**”) specified in the Participant’s electronic account, effective on the “**Grant Date**” specified in the Participant’s electronic account. The Award is subject to the terms and conditions of the Plan and this Award Agreement. The Award is granted under the Plan, the provisions of which are incorporated herein by reference and made a part of this Award Agreement.

Section 2. *Issuance of RSUs.* Each RSU shall represent the right to receive one Share upon the vesting of such RSU, as determined in accordance with and subject to the terms of this Award Agreement and the Plan.

Section 3. *Rights as a Shareholder; Dividend Equivalents.*

(a) The Participant shall have no voting rights or any other rights as a shareholder of the Company with respect to the RSUs unless and until the Participant becomes the record owner of the Shares underlying such RSUs.

(b) If a dividend is declared on Shares during the period commencing on the Grant Date (including such date) and ending on the date on which the Shares underlying RSUs are distributed to the Participant pursuant to Section 6, the Participant shall be credited with dividend equivalents in the form and in an amount equal to the dividend that the Participant would have received had the Shares underlying the RSUs been distributed to the Participant as of the time at which such dividend is paid. Dividend equivalents will be subject to the same vesting and forfeiture restrictions as the RSUs to which they are attributable and will be paid on the same date that the RSUs to which they are attributable are settled in accordance with Section 6.

Section 4. *Restrictions on Transferability.* The RSUs granted hereunder shall not be assigned, sold, exchanged, pledged, hypothecated, transferred, alienated or otherwise disposed of or hedged, in any manner (including through the use of any cash-settled instrument), whether voluntarily or involuntarily, and whether by operation of law or otherwise, other than by will or by the laws of descent and distribution, by the Participant. Any sale, exchange, transfer, assignment, pledge, hypothecation, or other disposition in violation of the provisions of this Section 4 shall be null and void and any RSU which is hedged in any manner shall immediately be forfeited. All of the terms and conditions of the Plan and this Award Agreement shall be binding upon any permitted successors and assigns.

Section 5. *Vesting; Change of Control; Vesting and Forfeiture Upon a Termination of Employment.*

(a) *Vesting.* The Award will be subject to the vesting schedule specified in the Participant’s electronic account.

(b) *Change of Control.* If the Participant is terminated by the Company without Cause, or the Participant resigns from employment with the Company with Good Reason, within 12 months after a Change of Control (a “**Change of Control Termination**”), all unvested RSUs shall fully vest on the Participant’s termination date and shall be distributed to the Participant pursuant to Section 6.

(c) *Vesting and Forfeiture Upon Termination of Employment* .

i. *Termination Without Cause* . If the Participant is terminated by the Company without Cause (other than a Change of Control Termination), the Participant's RSUs shall continue to vest in accordance with Section 5(a) as though the Participant was still employed by the Company on each applicable vesting date, *provided, however*, that the Participant does not engage in any Detrimental Activity during the Participant's post-employment vesting period.

ii. *Retirement; Disability* . If the Participant's employment is terminated due to Retirement or Disability, the Participant's RSUs shall continue to vest in accordance with Section 5(a) as though the Participant was still employed by the Company on each applicable vesting date, *provided, however*, that the Participant (A) does not engage in any Detrimental Activity and (B) does not become employed by any company in the financial services industry, in each case, during the Participant's post-employment vesting period.

iii. *Death* . If the Participant is terminated due to death, the Participant's RSUs shall fully vest on the Participant's date of death and shall be distributed to the Participant's Beneficiary pursuant to Section 6.

iv. *Forfeiture* . If the Participant is terminated by the Company with Cause or the Participant resigns for any reason (other than a Change of Control Termination), any unvested RSUs shall be forfeited in their entirety on the Participant's termination date without any payment to the Participant. In addition, if (A) the Participant's employment is terminated by the Company without Cause (other than a Change of Control Termination) and the Participant engages in any Detrimental Activity during the Participant's post-employment vesting period, or (B) the Participant's employment is terminated due to Retirement or Disability and the Participant either (I) engages in any Detrimental Activity, or (II) becomes employed by any company in the financial services industry, in either case, during the Participant's post-employment vesting period, any unvested RSUs shall be forfeited in their entirety on the date that the Participant engages in such Detrimental Activity or becomes employed by any company in the financial services industry, as applicable, without any payment to the Participant.

Section 6. *Distribution on Vesting*. Subject to the provisions of this Award Agreement, upon the vesting of any of the RSUs, the Company shall deliver to the Participant (or the Participant's Beneficiary, in the event of the Participant's death prior to distribution), as soon as reasonably practicable after the vesting date (or the Participant's termination date, as applicable), one Share for each RSU, provided that such delivery of Shares shall be made no later than the end of the calendar year in which they vest or, if later, by the 15<sup>th</sup> day of the third calendar month after the vesting date provided that the Participant shall not be permitted, directly or indirectly, to designate the taxable year of the payment. Upon such delivery, such Shares shall be fully assignable, saleable and transferable by the Participant, provided that any such assignment, sale, transfer or other alienation with respect to such Shares shall be in accordance with applicable securities laws.

Section 7. *[Repayment Requirement]*. If the Participant's employment is terminated (or notice to terminate is given by the Participant or the Company) for any reason other than death, Disability, Retirement, or termination by the Company without Cause within 12 months of the date the Participant commences employment with the Company, any unvested RSUs shall be forfeited in their entirety on the Participant's termination date without any payment to the Participant and the Participant shall be required to repay the Company within 14 days of the Participant's termination date the net value (following any applicable tax and other statutory deductions) of any Shares that the Participant received pursuant to this Award Agreement.] [Section 7 only applicable to buy-out awards]

Section 8. *Notice Prior to the Participant's Voluntary Separation from Employment*. In partial consideration for the Participant's eligibility for and receipt of any award granted under the Plan, the Participant agrees to provide the Company with prior notice of the Participant's voluntary separation from employment, regardless of the reason for such separation. Such notice shall be no less than the greater of (a) the notice period applicable to the Participant's employee level as specified in the Company's Separation from Employment Policy as it exists at the time the

Participant provides such notice or (b) the period specified in any other written agreement between the Participant and the Company.

Section 9. *Restrictive Covenants.*

(a) *Non-Solicitation of Employees* . In addition to the Participant's obligations detailed in this Agreement, the Participant agrees and reaffirms that, at any time during the Participant's employment and for twelve (12) months following the date the Participant ceases to be employed by the Company for any reason, or if longer, during the remaining vesting period (the "Restricted Period"), the Participant shall not, directly or indirectly, whether for the Participant's own account or for any person or entity other than the Company or any Company Affiliate hire, employ, solicit for employment or hire, or attempt to solicit for employment or hire, any person who is employed by the Company or any Company Affiliate during the Restricted Period, nor shall the Participant directly or indirectly induce any such employee to terminate his or her employment or accept employment with anyone other than a Company Affiliate, or otherwise interfere with the relationship between the Company and/or any Company Affiliate and any of their employees during the Restricted Period. Anything to the contrary notwithstanding, the Company agrees that the Participant shall not be deemed in violation of this Section 9(a) if an entity with which the Participant is associated hires or engages any employee of the Company or a Company Affiliate, if the Participant was not, directly or indirectly, involved in hiring or identifying such person as a potential recruit or assisting in the recruitment of such employee.

(b) *Non-Solicitation of, and Non-Interference with, Customers and Prospective Clients.* The Participant agrees that during the Participant's employment and during the Restricted Period, the Participant shall not, directly or indirectly, for any person or entity other than the Company or any Company Affiliate, solicit, assist in soliciting for or accept business from any customer of the Company or any Company Affiliate, nor will the Participant induce or encourage any such customer to discontinue or diminish his, her or its relationship or prospective relationship with the Company or any Company Affiliate, or divert business away from the Company or any Company Affiliate; provided, however, that general solicitation through advertisement shall not constitute solicitation for purposes of this provision. Anything to the contrary notwithstanding, the Company agrees that the Participant shall not be deemed in violation of this Section 9(b) if an entity with which the Participant is associated accepts business from a customer or client of the Company or a Company Affiliate, if the Participant was not, directly or indirectly, involved in soliciting or identifying such customer or client as a potential customer or client of the competing entity.

(c) *Representations* . The Participant agrees that all of the foregoing restrictions are reasonable and necessary to protect the Company's and/or any Company Affiliate's business and their Confidential Information and that the Participant's eligibility for and receipt of any award under the Plan, are independently and together good and valuable consideration to compensate him or her for agreeing to all restrictions contained in this Agreement. The Participant also acknowledges, represents and warrants that the Participant's knowledge, skills and abilities are sufficient to permit the Participant to earn a satisfactory livelihood without violating these provisions. Further, the Participant agrees that the Participant shall not, following the termination of the Participant's employment with the Company, represent or hold the Participant out as being in any way connected with the business of the Company or any Company Affiliate.

(d) *Blue Pencil* . It is expressly understood and agreed that although the Participant and the Company consider the restrictions contained in this section to be reasonable, if a final judicial determination is made by an arbitrator or a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against the Participant, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if an arbitrator or a court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

Section 10. *Tax Liability; Withholding Requirements.* The Participant shall be solely responsible for any applicable taxes (including, without limitation, income and excise taxes) and

penalties, and any interest that accrues thereon, that the Participant incurs in connection with the receipt, vesting or settlement of any RSU granted hereunder. The Company shall be authorized to withhold from the Award the amount (in cash or Shares, or any combination thereof) of applicable withholding taxes due in respect of the Award, its settlement or any payment or transfer under the Award and to take such other action (including providing for elective payment of such amounts in cash or other property by the Participant) as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes; provided, however, that no Shares shall be withheld with a value exceeding the maximum statutory tax rates in the applicable tax jurisdictions.

Section 11. *Recoupment/Clawback.* The Participant hereby acknowledges and agrees that in order to comply with applicable law (including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act), the Committee retains the right at all times to decrease or terminate all awards and payments under the Plan, and any and all amounts payable under the Plan, or paid under the Plan, shall be subject to clawback, forfeiture, and reduction to the extent determined necessary to comply with applicable law.

Section 12. *No Right to Continued Employment.* Neither the Plan nor this Award Agreement shall confer upon the Participant any right to continue to be employed by the Company and the receipt of the Award does not confer any rights on the Participant other than those expressly set forth in this Award Agreement or the Plan.

Section 13. *Section 409A of the Code.* This Award Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations thereunder, and the provisions of this Award Agreement shall be interpreted in a manner that satisfies the requirements of Section 409A of the Code, and this Award Agreement shall be operated accordingly. If any provision of this Award Agreement or any term or condition of the RSUs would otherwise conflict with this intent, the provision, term or condition shall be interpreted and deemed amended so as to avoid this conflict. Notwithstanding anything else in this Award Agreement, if the Board considers a Participant to be a "specified employee" under Section 409A of the Code at the time of such Participant's "separation from service" (as defined in Section 409A of the Code), and the amount hereunder is "deferred compensation" subject to Section 409A of the Code any distribution that otherwise would be made to such Participant with respect to RSUs as a result of such separation from service shall not be made until the date that is six months after such separation from service, except to the extent that earlier distribution would not result in such Participant's incurring interest or additional tax under Section 409A of the Code. If the Award includes a "series of installment payments" (within the meaning of Section 1.409A-2(b)(2)(iii) of the Treasury Regulations), the Participants' right to the series of installment payments shall be treated as a right to a series of separate payments and not as a right to a single payment. Notwithstanding the foregoing, the tax treatment of the benefits provided under this Award Agreement is not warranted or guaranteed, and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Participant on account of non-compliance with Section 409A of the Code.

Section 14. *Miscellaneous.*

(a) *Definitions.* For purposes of this Award Agreement:

i. "Cause" means:

(1) any conviction (including a plea of guilty or of nolo contendere or entry into a pre-trial diversion program) of the Participant for the commission of a felony or any conviction of any criminal offense within the scope of Section 19 of the Federal Deposit Insurance Act, 12 U.S.C. § 1829;

(2) the Participant commits an act of gross misconduct, fraud, embezzlement, theft or material dishonesty in connection with the Participant's duties or in the course of the Participant's employment with the Company or any of its affiliates;

(3) failure on the part of the Participant to perform his or her employment duties in any material respect, which is not cured to the reasonable satisfaction of the Company within 30 days after the Participant receives written notice of such failure; or

(4) the Participant engages in Detrimental Activity.

ii. “ **Company Affiliate** ” means the Company’s parents, subsidiaries, affiliates or their respective successors (collectively, the “Company Affiliates” and each a “Company Affiliate”).

iii. “ **Detrimental Activity** ” includes the following:

(1) The Participant’s disclosure to any unauthorized person, firm, or corporation or use or attempt to use for his or her own advantage or to the advantage of any other person, firm or corporation, any confidential information relating to the business affairs or trade secrets of the Company or any of its affiliates, howsoever obtained or provided, during the course of, or as a result of, his or her employment (the “ **Confidential Information** ”). Confidential Information includes, but is not limited to, information relating to employees, customers and suppliers (former, actual and potential), Company contracts, pricing structures, financial and marketing details, business plans, any technical data, designs, formulae, product lines, intellectual property, research activities and any information which may be deemed to be commercially or price sensitive in nature, whether printed, typed, handwritten, videotaped, transmitted or transcribed on data files or on any other type of media, including but not limited to electronic and digital media, whether or not labeled as “confidential”;

(2) The Participant violates the obligations set forth in Section 9(a) or 9(b) of this Award Agreement.

(3) Making any false or disparaging comments about the Company or any of its subsidiaries, affiliates, employees, officers, or directors; or

(4) Engaging in any activity which in the opinion of the Company is not consistent with providing an orderly handover of the Participant’s responsibilities.

The Participant agrees that the foregoing restrictions are reasonable and necessary to protect the Company’s business and that the grant of this Award, along with the benefits and attributes of the Participant’s employment by the Company, is good and valuable consideration to compensate the Participant for agreeing to these restrictions.

iv. “ **Disability** ” means the Participant is entitled to, and has begun to receive, long-term disability benefits under the long-term disability plan of the Company in which the Participant participates.

v. “ **Good Reason** ” means any of the following changes, as compared to the Participant’s terms of employment prior to a Change of Control:

(1) a material diminution in the Participant’s authority, duties, or responsibilities;

(2) a material diminution in the Participant’s base salary other than a general reduction in base salary that affects all similarly situated employees; or

(3) a relocation of the Participant’s principal place of employment by more than 50 miles from his or her current principal place of employment, unless the new principal place of employment is closer to the Participant’s home address.

Provided, however, that the Participant must give written notice to the Company within 30 days of the initial existence of any of the foregoing changes, the Company shall have 30 days upon receipt of such notice to remedy the condition so as to eliminate the Good Reason, and if not remedied, the Participant’s employment must terminate no later than 60 days following the expiration of such cure period. Notwithstanding the foregoing, the Participant’s continued employment shall not constitute a waiver of the Participant’s rights with respect to any circumstance constituting Good Reason under this Award Agreement.

vi. “ **Retirement** ” means the Participant’s age plus years of service (in each case, including completed months) equals or exceeds 65, with a minimum of at least five years of service with the Company.

(b) *Notices.* All notices, requests and other communications under this Award Agreement shall be in writing and shall be delivered in person (by courier or otherwise), mailed by certified or registered mail, return receipt requested, or sent by facsimile transmission or by e-mail or any other form of electronic transmission or delivery approved by the Committee, as follows:

if to the Company, to:

Citizens Financial Group, Inc.  
600 Washington Blvd.  
Stamford, CT 06901  
Attention: Corporate Secretary

if to the Participant, to the address that the Participant most recently provided to the Company,

or to such other address, facsimile number, e-mail address or such other form of electronic transmission or delivery as such party may hereafter specify for the purpose by notice to the other parties hereto. All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. on a business day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed received on the next succeeding business day in the place of receipt. Notwithstanding anything to the contrary contained in this Award Agreement or in the Plan, the Company may, in its sole discretion, deliver and, by acceptance of this grant, the Participant hereby explicitly and unambiguously consents and agrees to the receipt and delivery of, any notices permitted or required hereunder, documents related to any Awards granted under the Plan and/or any other information (including, without limitation, information required to be delivered to the Participant pursuant to applicable securities laws) regarding the Company and the Subsidiaries or the Plan by electronic means, including but not limited to through the Participant’s electronic account, through another on-line or electronic account system established and maintained by the Company or another third party designated by the Company or via the Company website. Such consent shall remain in effect throughout the Participant’s term of employment or service with the Company and thereafter until withdrawn in writing by the Participant. The Participant acknowledges that the Participant may receive from the Company a paper copy of any notices or documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing.

(c) *Entire Agreement* . This Award Agreement and the Plan (including the terms specified in the Participant’s electronic account, as noted in Section 1 and Section 5 above) constitute the entire agreement and understanding between the parties in respect of the subject matter hereof and supersede all prior and contemporaneous arrangements, agreements and understandings, both oral and written, whether in term sheets, presentations or otherwise, between the parties with respect to the subject matter hereof.

(d) *Severability* . If any provision of this Award Agreement is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Board, materially altering the intent of this Award Agreement, such provision shall be stricken as to such jurisdiction, and the remainder of this Award Agreement shall remain in full force and effect.

(e) *Amendment; Waiver* . No amendment or modification of any provision of this Award Agreement that has a material adverse effect on the Participant shall be effective unless signed in writing by or on behalf of the Company and the Participant, *provided* that the Company may amend or modify this Award Agreement without the Participant’s consent in accordance with the provisions of the Plan or as otherwise set forth in this Award Agreement. No waiver of any breach or condition of this Award Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature. Any amendment or modification of or to any

provision of this Award Agreement, or any waiver of any provision of this Award Agreement, shall be effective only in the specific instance and for the specific purpose for which made or given.

(f) *Assignment*. Neither this Award Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by the Participant.

(g) *Successors and Assigns; No Third-Party Beneficiaries*. This Award Agreement shall inure to the benefit of and be binding upon the Company and the Participant and their respective heirs, successors, legal representatives and permitted assigns. Nothing in this Award Agreement, express or implied, is intended to confer on any Person other than the Company and the Participant, and their respective heirs, successors, legal representatives and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Award Agreement.

(h) *Governing Law; Waiver of Jury Trial*. This Award Agreement shall be governed by the laws of the State of Delaware, without application of the conflicts of law principles thereof. By acknowledging this Award Agreement electronically or signing it manually, as applicable, the Participant waives any right that the Participant may have to trial by jury in respect of any litigation based on, arising out of, under or in connection with this Award Agreement or the Plan.

(i) *Discretionary Nature*. The grant of the RSUs does not create any contractual right or other right in the Participant to receive any RSUs or other Awards in the future. Future grants of Awards, if any, shall be at the sole discretion of the Company.

(j) *Participant Undertaking; Acceptance*. The Participant agrees to take whatever additional action and execute whatever additional documents the Company may deem necessary or advisable to carry out or give effect to any of the obligations or restrictions imposed on either the Participant or the RSUs pursuant to this Award Agreement. The Participant acknowledges receipt of a copy of the Plan and this Award Agreement and understands that material definitions and provisions concerning the RSUs and the Participant's rights and obligations with respect thereto are set forth in the Plan. The Participant has read carefully, and understands, the provisions of this Award Agreement and the Plan.

(k) *Dispute Resolution*. Except as provided in the last sentence of this paragraph to the fullest extent permitted by law, the Company and the Participant agree to waive their rights to seek remedies in court, including but not limited to rights to a trial by jury. The Company and each Participant agree that any dispute between or among them and/or their affiliates arising out of, relating to or in connection with this Plan shall be resolved in accordance with a confidential two-step dispute resolution procedure involving: (a) Step One: non-binding mediation, and (b) Step Two: binding arbitration under the Federal Arbitration Act, 9 U.S.C. § 1, et. seq., or state law, whichever is applicable. Any such mediation or arbitration hereunder shall be under the auspices of the American Arbitration Association ("AAA") pursuant to its then current AAA Commercial Arbitration Rules. No arbitration shall be initiated or take place with respect to a given dispute if the parties have successfully achieved a mutually agreed to resolution of the dispute as a result of the Step One mediation. The mediation session(s) and, if necessary, the arbitration hearing shall be held in the city/location selected by the Company in its sole discretion. The arbitration (if the dispute is not resolved by mediation) shall be conducted by a single AAA arbitrator, selected by the Company in its sole discretion. Any award rendered by the arbitrator, including with respect to responsibility for AAA charges (including the costs of the mediator and arbitrator), shall be final and binding, and judgment may be entered on it in any court of competent jurisdiction. In the unlikely event the AAA refuses to accept jurisdiction over a dispute, the Company and each Participant agree to submit to JAMS mediation (formerly known as Judicial Arbitration and Mediation Services) and arbitration applying the JAMS equivalent of the AAA Commercial Arbitration Rules. If AAA and JAMS refuse to accept jurisdiction, the parties may litigate in a court of competent jurisdiction.

(l) *Captions*. Captions provided herein are for convenience only and shall not affect the scope, meaning, intent or interpretation of the provisions of this Award Agreement.

(m) *Nature of Payments*. Any and all grants or deliveries related to the RSUs hereunder shall constitute special incentive payments to the Participant and shall not be taken into account in computing the amount of salary or compensation of the Participant for the purpose of determining any retirement, death or other benefits under (i) any retirement, bonus, life insurance or other

employee benefit plan of the Company, or (ii) any agreement between the Company and the Participant, except as such plan or agreement shall otherwise expressly provide.

(n) *Data Privacy* . The Participant understands that the Company and its affiliates and hold certain personal information about the Participant, including but not limited to the Participant's name, home address and telephone number, birthdate, social insurance number or other identification number, compensation, details of all Awards or any other entitlement to Shares for the purpose of administering the Plan (the "Data"). As a condition of receipt of this Award, the Participant explicitly consents to the collection, use, transfer and retention, in electronic or other form, of the Data by and among, as applicable, the Company, its affiliates and any third parties assisting the Company in administration of the Plan (including but not limited to any broker or other third party with whom the Participant may elect to deposit Shares), in each case, for the purpose of administering the Participant's participation in the Plan.

**CITIZENS FINANCIAL GROUP, INC.  
2014 OMNIBUS INCENTIVE PLAN**

**Performance Stock Unit Award Agreement  
Terms and Conditions**

Unless defined in this award agreement (this “ **Award Agreement** ”), capitalized terms shall have the meanings assigned to them in the Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan (the “ **Plan** ”). In the event of a conflict among the provisions of the Plan and this Award Agreement, the provisions of the Plan shall prevail.

Section 1. *Grant of PSU Award.* Citizens Financial Group, Inc. (together with its Subsidiaries, the “ **Company** ”) has granted to the Participant (the “ **Participant** ”) an award (the “ **Award** ”) of the target number of performance stock units specified in the Participant’s electronic account, effective on the “ **Grant Date** ” specified in the Participant’s electronic account. The Award is subject to the terms and conditions of the Plan and this Award Agreement. The Award is granted under the Plan, the provisions of which are incorporated herein by reference and made a part of this Award Agreement.

Section 2. *Issuance of PSUs .* Each performance stock unit (“ **PSU** ”) shall represent the right to receive one Share upon the vesting of such PSU, as determined in accordance with and subject to the terms of this Award Agreement and the Plan. The number of PSUs that the Participant will actually earn will be determined in accordance with the terms of this Award Agreement and a schedule to be provided to the Participant.

Section 3. *Rights as a Shareholder; Dividend Equivalents .*

(a) The Participant shall have no voting rights or any other rights as a shareholder of the Company with respect to the PSUs unless and until the Participant becomes the record owner of the Shares underlying such PSUs.

(b) If a dividend is declared on Shares during the period commencing on the Grant Date (including such date) and ending on the date on which the Shares underlying PSUs are distributed to the Participant pursuant to Section 7, the Participant shall be credited with dividend equivalents in the form and in an amount equal to the dividend that the Participant would have received had the Shares underlying the PSUs been distributed to the Participant as of the time at which such dividend is paid. Dividend equivalents will be subject to the same vesting and forfeiture restrictions as the PSUs to which they are attributable and will be paid on the same date that the PSUs to which they are attributable are settled in accordance with Section 7.

Section 4. *Restrictions on Transferability .* The PSUs granted hereunder shall not be assigned, sold, exchanged, pledged, hypothecated, transferred, alienated or otherwise disposed of or hedged, in any manner (including through the use of any cash-settled instrument), whether voluntarily or involuntarily, and whether by operation of law or otherwise, other than by will or by the laws of descent and distribution, by the Participant. Any sale, exchange, transfer, assignment, pledge, hypothecation, or other disposition in violation of the provisions of this Section 4 shall be null and void and any PSU which is hedged in any manner shall immediately be forfeited. All of the terms and conditions of the Plan and this Award Agreement shall be binding upon any permitted successors and assigns.

Section 5. *Performance Assessment .*

(a) Except in the event of a Change of Control, the number of PSUs earned by the Participant for the Performance Period will be determined in accordance with a schedule to be provided to the Participant. The Committee shall determine, in its sole discretion, the number of PSUs earned by the Participant.

(b) Promptly following the end of the Performance Period (and no later than 60 days following the end of the Performance Period), the Committee will review and certify in writing (i) whether, and to what extent, performance has been achieved in accordance with a schedule to be provided to the Participant, and (ii) the number of PSUs that the Participant shall earn, if any,

subject to compliance with the requirements of Section 6. The Committee's certification shall be final, conclusive and binding on the Participant, and on all other persons, to the maximum extent permitted by law.

Section 6. *Vesting; Change of Control; Vesting and Forfeiture Upon a Termination of Employment* .

(a) *Vesting* . The number of PSUs earned by the Participant, if any, determined as set forth in Section 5(b), will vest and become nonforfeitable following the end of the Performance Period on the vesting date identified in the Participant's electronic account (the "**Vesting Date**"), subject to the Participant's continued service from the Grant Date through the Vesting Date.

(b) *Change of Control* . In the event of a Change of Control prior to the end of the Performance Period:

i. The Committee will review and certify in writing whether, and to what extent, performance has been achieved through the date of the Change of Control, and the number of PSUs that the Participant shall earn, if any, subject to compliance with the requirements of this Section 6(b). The Committee's certification shall be final, conclusive and binding on the Participant, and on all other persons, to the maximum extent permitted by law.

ii. Following the Change of Control, the PSUs will remain subject to forfeiture and conditioned on the Participant's continued service from the Grant Date through the Vesting Date; *provided, however* , that if the Participant is terminated by the Company without Cause, or the Participant resigns from employment with the Company with Good Reason, within 12 months after the Change of Control (a "**Change of Control Termination**"), the PSUs earned by the Participant, as determined by the Committee pursuant to Section 6(b)(i), shall fully vest on the Participant's termination date and shall be distributed to the Participant in accordance with Section 7.

(c) *Vesting and Forfeiture Upon Termination of Employment*.

i. *Termination Without Cause* . If the Participant is terminated by the Company without Cause (other than a Change of Control Termination) on or after the first anniversary of the Performance Period Start Date, the PSUs earned by the Participant as set forth in Section 5(b) shall vest on the Vesting Date in accordance with Section 6(a) as though the Participant was still employed by the Company on the Vesting Date; *provided, however* , that the Participant does not engage in any Detrimental Activity during the Participant's post-employment vesting period.

ii. *Retirement; Disability* . If the Participant's employment is terminated by reason of Retirement or Disability, the PSUs earned by the Participant as set forth in Section 5(b) shall vest on the Vesting Date in accordance with Section 6(a) as though the Participant was still employed by the Company on the Vesting Date; *provided, however* , that the Participant (A) does not engage in any Detrimental Activity and (B) does not become employed by any company in the financial services industry, in each case, during the Participant's post-employment vesting period.

iii. *Death* . If the Participant is terminated due to death, the target number of PSUs shall fully vest on the Participant's date of death and shall be distributed to the Participant's Beneficiary in accordance with Section 7.

iv. *Forfeiture* . If the Participant is terminated by the Company with Cause or the Participant resigns for any reason (other than a Change of Control Termination), any unvested PSUs shall be forfeited in their entirety on the Participant's termination date without any payment to the Participant. If the Participant's employment is terminated by the Company without Cause (other than a Change of Control Termination) prior to the first anniversary of the Performance Period Start Date, any unvested PSUs shall be forfeited in their entirety on the Participant's termination date without any payment to the Participant. In addition, if (A) the Participant's employment is terminated by the Company without Cause (other than a Change of Control

Termination) and the Participant engages in any Detrimental Activity during the Participant's post-employment vesting period, or (B) the Participant's employment is terminated due to Retirement or Disability and the Participant either (I) engages in any Detrimental Activity, or (II) becomes employed by any company in the financial services industry, in either case, during the Participant's post-employment vesting period, any unvested PSUs shall be forfeited in their entirety on the date that the Participant engages in such Detrimental Activity or becomes employed by any company in the financial services industry, as applicable, without any payment to the Participant.

Section 7. *Distribution on Vesting* . Subject to the provisions of this Award Agreement, upon the vesting of any of the PSUs, the Company shall deliver to the Participant (or the Participant's Beneficiary, in the event of the Participant's death prior to distribution), as soon as reasonably practicable after the Vesting Date (or the Participant's termination date, as applicable), one Share for each PSU, *provided* that such delivery of Shares shall be made no later than March 15 of the calendar year immediately following the year in which the Vesting Date (or the Participant's termination date, as applicable) occurs. Upon such delivery, such Shares shall be fully assignable, saleable and transferable by the Participant, *provided* that any such assignment, sale, transfer or other alienation with respect to such Shares shall be in accordance with applicable securities laws.

Section 8. *Notice Prior to the Participant's Voluntary Separation from Employment* . In partial consideration for the Participant's eligibility for and receipt of any award granted under the Plan, the Participant agrees to provide the Company with prior notice of the Participant's voluntary separation from employment, regardless of the reason for such separation. Such notice shall be no less than the greater of (a) the notice period applicable to the Participant's employee level as specified in the Company's Separation from Employment Policy as it exists at the time the Participant provides such notice or (b) the period specified in any other written agreement between the Participant and the Company.

Section 9. *Restrictive Covenants* .

(a) *Non-Solicitation of Employees* . In addition to the Participant's obligations detailed in this Agreement, the Participant agrees and reaffirms that, at any time during the Participant's employment and for twelve (12) months following the date the Participant ceases to be employed by the Company for any reason, or if longer, during the remaining vesting period (the "Restricted Period"), the Participant shall not, directly or indirectly, whether for the Participant's own account or for any person or entity other than the Company or any Company Affiliate hire, employ, solicit for employment or hire, or attempt to solicit for employment or hire, any person who is employed by the Company or any Company Affiliate during the Restricted Period, nor shall the Participant directly or indirectly induce any such employee to terminate his or her employment or accept employment with anyone other than a Company Affiliate, or otherwise interfere with the relationship between the Company and/or any Company Affiliate and any of their employees during the Restricted Period. Anything to the contrary notwithstanding, the Company agrees that the Participant shall not be deemed in violation of this Section 9(a) if an entity with which the Participant is associated hires or engages any employee of the Company or a Company Affiliate, if the Participant was not, directly or indirectly, involved in hiring or identifying such person as a potential recruit or assisting in the recruitment of such employee.

(b) *Non-Solicitation of, and Non-Interference with, Customers and Prospective Clients* . The Participant agrees that during the Participant's employment and during the Restricted Period, the Participant shall not, directly or indirectly, for any person or entity other than the Company or any Company Affiliate, solicit, assist in soliciting for or accept business from any customer of the Company or any Company Affiliate, nor will the Participant induce or encourage any such customer to discontinue or diminish his, her or its relationship or prospective relationship with the Company or any Company Affiliate, or divert business away from the Company or any Company Affiliate; provided, however, that general solicitation through advertisement shall not constitute solicitation for purposes of this provision. Anything to the contrary notwithstanding, the Company agrees that the Participant shall not be deemed in violation of this Section 9(b) if an entity with which the Participant is associated accepts business from a customer or client of the Company or a

Company Affiliate, if the Participant was not, directly or indirectly, involved in soliciting or identifying such customer or client as a potential customer or client of the competing entity.

(c) *Representations*. The Participant agrees that all of the foregoing restrictions are reasonable and necessary to protect the Company's and/or any Company Affiliate's business and their Confidential Information and that the Participant's eligibility for and receipt of any award under the Plan, are independently and together good and valuable consideration to compensate him or her for agreeing to all restrictions contained in this Agreement. The Participant also acknowledges, represents and warrants that the Participant's knowledge, skills and abilities are sufficient to permit the Participant to earn a satisfactory livelihood without violating these provisions. Further, the Participant agrees that the Participant shall not, following the termination of the Participant's employment with the Company, represent or hold the Participant out as being in any way connected with the business of the Company or any Company Affiliate.

(d) *Blue Pencil*. It is expressly understood and agreed that although the Participant and the Company consider the restrictions contained in this section to be reasonable, if a final judicial determination is made by an arbitrator or a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against the Participant, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if an arbitrator or a court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

Section 10. *Tax Liability; Withholding Requirements*. The Participant shall be solely responsible for any applicable taxes (including, without limitation, income and excise taxes) and penalties, and any interest that accrues thereon, that the Participant incurs in connection with the receipt, vesting or settlement of any PSU granted hereunder. The Company shall be authorized to withhold from the Award the amount (in cash or Shares, or any combination thereof) of applicable withholding taxes due in respect of the Award, its settlement or any payment or transfer under the Award and to take such other action (including providing for elective payment of such amounts in cash or other property by the Participant) as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes; provided, however, that no Shares shall be withheld with a value exceeding the maximum statutory tax rates in the applicable tax jurisdictions.

Section 11. *Recoupment/Clawback*. The Participant hereby acknowledges and agrees that in order to comply with applicable law (including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act) and policies of the Company, the Committee retains the right at all times to decrease or terminate all awards and payments under the Plan, and any and all amounts payable under the Plan, or paid under the Plan, shall be subject to clawback, forfeiture, and reduction to the extent determined necessary to comply with applicable law and/or policies of the Company, including as a result of risk-related events.

Section 12. *No Right to Continued Employment*. Neither the Plan nor this Award Agreement shall confer upon the Participant any right to continue to be employed by the Company and the receipt of the Award does not confer any rights on the Participant other than those expressly set forth in this Award Agreement or the Plan.

Section 13. *Section 409A of the Code*. This Award Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations thereunder, and the provisions of this Award Agreement shall be interpreted in a manner that satisfies the requirements of Section 409A of the Code, and this Award Agreement shall be operated accordingly. If any provision of this Award Agreement or any term or condition of the PSUs would otherwise conflict with this intent, the provision, term or condition shall be interpreted and deemed amended so as to avoid this conflict. Notwithstanding anything else in this Award Agreement, if the Board considers a Participant to be a "specified employee" under Section 409A of the Code at the time of such Participant's "separation from service" (as defined in Section 409A of the Code), and the amount hereunder is "deferred compensation" subject to Section 409A of the Code any distribution that

otherwise would be made to such Participant with respect to PSUs as a result of such separation from service shall not be made until the date that is six months after such separation from service, except to the extent that earlier distribution would not result in such Participant's incurring interest or additional tax under Section 409A of the Code. If the Award includes a "series of installment payments" (within the meaning of Section 1.409A-2(b)(2)(iii) of the Treasury Regulations), the Participants' right to the series of installment payments shall be treated as a right to a series of separate payments and not as a right to a single payment. Notwithstanding the foregoing, the tax treatment of the benefits provided under this Award Agreement is not warranted or guaranteed, and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Participant on account of non-compliance with Section 409A of the Code.

Section 14. *Miscellaneous* .

(a) *Definitions* . For purposes of this Award Agreement:

i. " **Cause** " means:

(1) any conviction (including a plea of guilty or of nolo contendere or entry into a pre-trial diversion program) of the Participant for the commission of a felony or any conviction of any criminal offense within the scope of Section 19 of the Federal Deposit Insurance Act, 12 U.S.C. § 1829;

(2) the Participant commits an act of gross misconduct, fraud, embezzlement, theft or material dishonesty in connection with the Participant's duties or in the course of the Participant's employment with the Company or any of its affiliates;

(3) failure on the part of the Participant to perform his or her employment duties in any material respect, which is not cured to the reasonable satisfaction of the Company within 30 days after the Participant receives written notice of such failure; or

(4) the Participant engages in Detrimental Activity.

ii. " **Company Affiliate** " means the Company's parents, subsidiaries, affiliates or their respective successors (collectively, the "Company Affiliates" and each a "Company Affiliate").

iii. " **Detrimental Activity** " includes the following:

(1) The Participant's disclosure to any unauthorized person, firm, or corporation or use or attempt to use for his or her own advantage or to the advantage of any other person, firm or corporation, any confidential information relating to the business affairs or trade secrets of the Company or any of its affiliates, howsoever obtained or provided, during the course of, or as a result of, his or her employment (the " **Confidential Information** "). Confidential Information includes, but is not limited to, information relating to employees, customers and suppliers (former, actual and potential), Company contracts, pricing structures, financial and marketing details, business plans, any technical data, designs, formulae, product lines, intellectual property, research activities and any information which may be deemed to be commercially or price sensitive in nature, whether printed, typed, handwritten, videotaped, transmitted or transcribed on data files or on any other type of media, including but not limited to electronic and digital media, whether or not labeled as "confidential";

(2) The Participant violates the obligations set forth in Section 9(a) or 9(b) of this Award Agreement.

(3) Making any false or disparaging comments about the Company or any of its subsidiaries, affiliates, employees, officers, or directors; or

(4) Engaging in any activity which in the opinion of the Company is not consistent with providing an orderly handover of the Participant's responsibilities.

The Participant agrees that the foregoing restrictions are reasonable and necessary to protect the Company's business and that the grant of this Award, along with the benefits and attributes of the Participant's employment by the Company, is good and valuable consideration to compensate the Participant for agreeing to these restrictions.

iv. " **Disability** " means the Participant is entitled to, and has begun to receive, long-term disability benefits under the long-term disability plan of the Company in which the Participant participates.

v. " **Good Reason** " means any of the following changes, as compared to the Participant's terms of employment prior to a Change of Control:

(1) a material diminution in the Participant's authority, duties, or responsibilities;

(2) a material diminution in the Participant's base salary other than a general reduction in base salary that affects all similarly situated employees; or

(3) a relocation of the Participant's principal place of employment by more than 50 miles from his or her current principal place of employment, unless the new principal place of employment is closer to the Participant's home address.

Provided, however, that the Participant must give written notice to the Company within 30 days of the initial existence of any of the foregoing changes, the Company shall have 30 days upon receipt of such notice to remedy the condition so as to eliminate the Good Reason, and if not remedied, the Participant's employment must terminate no later than 60 days following the expiration of such cure period. Notwithstanding the foregoing, the Participant's continued employment shall not constitute a waiver of the Participant's rights with respect to any circumstance constituting Good Reason under this Award Agreement.

vi. " **Performance Period** " means the period beginning on \_\_\_\_\_ and ending on \_\_\_\_\_.

vii. " **Performance Period Start Date** " means the date that the Performance Period begins, as set forth in Section 14(a) (vi).

viii. " **Retirement** " means the Participant's age plus years of service (in each case, including completed months) equals or exceeds 65, with a minimum of at least five years of service with the Company.

(b) *Notices.* All notices, requests and other communications under this Award Agreement shall be in writing and shall be delivered in person (by courier or otherwise), mailed by certified or registered mail, return receipt requested, or sent by facsimile transmission or by e-mail or any other form of electronic transmission or delivery approved by the Committee, as follows:

if to the Company, to:

Citizens Financial Group, Inc.  
600 Washington Blvd.  
Stamford, CT 06901  
Attention: Corporate Secretary

if to the Participant, to the address that the Participant most recently provided to the Company,

or to such other address, facsimile number, e-mail address or such other form of electronic transmission or delivery as such party may hereafter specify for the purpose by notice to the other parties hereto. All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. on a business day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed received on the next succeeding business day in the place of receipt. Notwithstanding anything to the

contrary contained in this Award Agreement or in the Plan, the Company may, in its sole discretion, deliver and, by acceptance of this grant, the Participant hereby explicitly and unambiguously consents and agrees to the receipt and delivery of, any notices permitted or required hereunder, documents related to any Awards granted under the Plan and/or any other information (including, without limitation, information required to be delivered to the Participant pursuant to applicable securities laws) regarding the Company and the Subsidiaries or the Plan by electronic means, including but not limited to through the Participant's electronic account, through another on-line or electronic account system established and maintained by the Company or another third party designated by the Company or via the Company website. Such consent shall remain in effect throughout the Participant's term of employment or service with the Company and thereafter until withdrawn in writing by the Participant. The Participant acknowledges that the Participant may receive from the Company a paper copy of any notices or documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing.

(c) *Entire Agreement* . This Award Agreement and the Plan (including the terms specified in the Participant's electronic account, as noted in Section 1 and Section 6 above) constitute the entire agreement and understanding between the parties in respect of the subject matter hereof and supersede all prior and contemporaneous arrangements, agreements and understandings, both oral and written, whether in term sheets, presentations or otherwise, between the parties with respect to the subject matter hereof.

(d) *Severability* . If any provision of this Award Agreement is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Board, materially altering the intent of this Award Agreement, such provision shall be stricken as to such jurisdiction, and the remainder of this Award Agreement shall remain in full force and effect.

(e) *Amendment; Waiver* . No amendment or modification of any provision of this Award Agreement that has a material adverse effect on the Participant shall be effective unless signed in writing by or on behalf of the Company and the Participant, *provided* that the Company may amend or modify this Award Agreement without the Participant's consent in accordance with the provisions of the Plan or as otherwise set forth in this Award Agreement. No waiver of any breach or condition of this Award Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature. Any amendment or modification of or to any provision of this Award Agreement, or any waiver of any provision of this Award Agreement, shall be effective only in the specific instance and for the specific purpose for which made or given.

(f) *Assignment* . Neither this Award Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by the Participant.

(g) *Successors and Assigns; No Third-Party Beneficiaries* . This Award Agreement shall inure to the benefit of and be binding upon the Company and the Participant and their respective heirs, successors, legal representatives and permitted assigns. Nothing in this Award Agreement, express or implied, is intended to confer on any Person other than the Company and the Participant, and their respective heirs, successors, legal representatives and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Award Agreement.

(h) *Governing Law; Waiver of Jury Trial* . This Award Agreement shall be governed by the laws of the State of Delaware, without application of the conflicts of law principles thereof. By acknowledging this Award Agreement electronically or signing it manually, as applicable, the Participant waives any right that the Participant may have to trial by jury in respect of any litigation based on, arising out of, under or in connection with this Award Agreement or the Plan.

(i) *Discretionary Nature* . The grant of the PSUs does not create any contractual right or other right in the Participant to receive any PSUs or other Awards in the future. Future grants of Awards, if any, shall be at the sole discretion of the Company.

(j) *Participant Undertaking; Acceptance* . The Participant agrees to take whatever additional action and execute whatever additional documents the Company may deem necessary or advisable to carry out or give effect to any of the obligations or restrictions imposed on either the Participant or the PSUs pursuant to this Award Agreement. The Participant acknowledges receipt of a copy of the Plan and this Award Agreement and understands that material definitions and provisions concerning the PSUs and the Participant's rights and obligations with respect thereto are set forth in the Plan. The Participant has read carefully, and understands, the provisions of this Award Agreement and the Plan.

(k) *Dispute Resolution*. Except as provided in the last sentence of this paragraph to the fullest extent permitted by law, the Company and the Participant agree to waive their rights to seek remedies in court, including but not limited to rights to a trial by jury. The Company and each Participant agree that any dispute between or among them and/or their affiliates arising out of, relating to or in connection with this Plan shall be resolved in accordance with a confidential two-step dispute resolution procedure involving: (a) Step One: non-binding mediation, and (b) Step Two: binding arbitration under the Federal Arbitration Act, 9 U.S.C. § 1, et. seq., or state law, whichever is applicable. Any such mediation or arbitration hereunder shall be under the auspices of the American Arbitration Association ("AAA") pursuant to its then current AAA Commercial Arbitration Rules. No arbitration shall be initiated or take place with respect to a given dispute if the parties have successfully achieved a mutually agreed to resolution of the dispute as a result of the Step One mediation. The mediation session(s) and, if necessary, the arbitration hearing shall be held in the city/location selected by the Company in its sole discretion. The arbitration (if the dispute is not resolved by mediation) shall be conducted by a single AAA arbitrator, selected by the Company in its sole discretion. Any award rendered by the arbitrator, including with respect to responsibility for AAA charges (including the costs of the mediator and arbitrator), shall be final and binding, and judgment may be entered on it in any court of competent jurisdiction. In the unlikely event the AAA refuses to accept jurisdiction over a dispute, the Company and each Participant agree to submit to JAMS mediation (formerly known as Judicial Arbitration and Mediation Services) and arbitration applying the JAMS equivalent of the AAA Commercial Arbitration Rules. If AAA and JAMS refuse to accept jurisdiction, the parties may litigate in a court of competent jurisdiction.

(l) *Captions* . Captions provided herein are for convenience only and shall not affect the scope, meaning, intent or interpretation of the provisions of this Award Agreement.

(m) *Nature of Payments* . Any and all grants or deliveries related to the PSUs hereunder shall constitute special incentive payments to the Participant and shall not be taken into account in computing the amount of salary or compensation of the Participant for the purpose of determining any retirement, death or other benefits under (i) any retirement, bonus, life insurance or other employee benefit plan of the Company, or (ii) any agreement between the Company and the Participant, except as such plan or agreement shall otherwise expressly provide.

(n) *Data Privacy* . The Participant understands that the Company and its affiliates hold certain personal information about the Participant, including but not limited to the Participant's name, home address and telephone number, birthdate, social insurance number or other identification number, compensation, details of all Awards or any other entitlement to Shares for the purpose of administering the Plan (the "Data"). As a condition of receipt of this Award, the Participant explicitly consents to the collection, use, transfer and retention, in electronic or other form, of the Data by and among, as applicable, the Company, its affiliates and any third parties assisting the Company in administration of the Plan (including but not limited to any broker or other third party with whom the Participant may elect to deposit Shares), in each case, for the purpose of administering the Participant's participation in the Plan.

**CITIZENS FINANCIAL GROUP, INC.**

**Deferred Cash Award Agreement  
Terms and Conditions**

Section 1. *Grant of Deferred Cash Award.* Citizens Financial Group, Inc. (together with its Subsidiaries, the “**Company**”) has granted to the recipient, as identified in such recipient’s electronic account (the “**Recipient**”), in exchange for the Recipient’s services to the Company, a cash award (the “**Award**”) in the amount specified in the Recipient’s electronic account, effective on the “**Grant Date**” specified in the Recipient’s electronic account. The Award is subject to the terms and conditions of this award agreement (the “**Award Agreement**”).

Section 2. *Restrictions on Transferability.* The Award granted under this Award Agreement shall not be assigned, sold, exchanged, pledged, hypothecated, transferred, alienated or otherwise disposed of or hedged, in any manner, whether voluntarily or involuntarily, and whether by operation of law or otherwise, other than by will or by the laws of descent and distribution, by the Recipient. Any sale, exchange, transfer, assignment, pledge, hypothecation, or other disposition in violation of the provisions of this Section 2 shall be null and void and any portion of the Award that is hedged in any manner shall immediately be forfeited. All of the terms and conditions of this Award Agreement shall be binding upon any permitted successors and assigns.

Section 3. *Vesting; Change of Control; Vesting and Forfeiture Upon a Termination of Employment.*

(a) *Vesting.* The Award will be subject to the vesting schedule specified in the Recipient’s electronic account.

(b) *Change of Control.* If the Recipient is terminated by the Company without Cause, or the Recipient resigns from employment with the Company with Good Reason, within 12 months after a Change of Control (a “Change of Control Termination”), the Award shall fully vest on the Recipient’s termination date and shall be paid to the Recipient pursuant to Section 4.

(c) *Vesting and Forfeiture Upon Termination of Employment.*

i. *Termination Without Cause.* If the Recipient is terminated by the Company without Cause (other than a Change of Control Termination), the Award shall continue to vest in accordance with Section 3(a) as though the Recipient was still employed by the Company on each applicable vesting date; *provided, however*, that the Recipient does not engage in any Detrimental Activity during the Recipient’s post-employment vesting period.

ii. *Retirement; Disability.* If the Recipient’s employment is terminated due to Retirement or Disability, the Award shall continue to vest in accordance with Section 3(a) as though the Recipient was still employed by the Company on each applicable vesting date, *provided, however*, that the Recipient (A) does not engage in any Detrimental Activity and (B) does not become employed by any company in the financial services industry, in each case, during the Recipient’s post-employment vesting period.

iii. *Death.* If the Recipient is terminated due to death, the Award shall fully vest on the Recipient’s date of death and shall be paid to the Recipient’s Beneficiary pursuant to Section 4.

iv. *Forfeiture.* If the Recipient is terminated by the Company with Cause or the Recipient resigns for any reason (other than a Change of Control Termination), any unvested portion of the Award shall be forfeited in its entirety on the Recipient’s termination date without any payment to the Recipient. In addition, if (A) the Recipient’s employment is terminated by the Company without Cause (other than a Change of Control Termination) and the Recipient engages in Detrimental Activity during the Recipient’s post-employment vesting period, or (B) the Recipient’s employment is terminated due to Retirement or Disability and the Recipient either (I) engages in any Detrimental Activity, or (II) becomes employed by any company in the financial services industry, in either case, during the Recipient’s post-employment vesting period, any

unvested portion of the Award shall be forfeited in its entirety on the date that the Recipient engages in such Detrimental Activity or becomes employed by any company in the financial services industry, as applicable, without any payment to the Recipient.

Section 4. *Distribution on Vesting* . Each portion of the Award that becomes vested pursuant to Section 3 shall be paid as soon as reasonably practicable on or after the applicable vesting date in an amount equal to the portion of the Award that became vested on that date; *provided, however* , that such payment shall be made no later than the end of the calendar year in which it vests or, if later, by the 15<sup>th</sup> day of the third calendar month after the vesting date provided that the Recipient shall not be permitted, directly or indirectly, to designate the taxable year of the payment.

Section 5. *Notice Prior to the Recipient's Voluntary Separation from Employment* . In partial consideration for the Recipient's eligibility for and receipt of the Award, the Recipient agrees to provide the Company with prior notice of the Recipient's voluntary separation from employment, regardless of the reason for such separation. Such notice shall be no less than the greater of (a) the notice period applicable to the Recipient's employee level as specified in the Company's Separation from Employment Policy as it exists at the time the Recipient provides such notice or (b) the period specified in any other written agreement between the Recipient and the Company.

Section 6. *Restrictive Covenants* .

(a) *Non-Solicitation of Employees* . In addition to the Recipient's obligations detailed in this Agreement, the Recipient agrees and reaffirms that, at any time during the Recipient's employment and for twelve (12) months following the date the Recipient ceases to be employed by the Company for any reason, or if longer, during the remaining vesting period (the "Restricted Period"), the Recipient shall not, directly or indirectly, whether for the Recipient's own account or for any person or entity other than the Company or any Company Affiliate hire, employ, solicit for employment or hire, or attempt to solicit for employment or hire, any person who is employed by the Company or any Company Affiliate during the Restricted Period, nor shall the Recipient directly or indirectly induce any such employee to terminate his or her employment or accept employment with anyone other than a Company Affiliate, or otherwise interfere with the relationship between the Company and/or any Company Affiliate and any of their employees during the Restricted Period. Anything to the contrary notwithstanding, the Company agrees that the Recipient shall not be deemed in violation of this Section 6(a) if an entity with which the Recipient is associated hires or engages any employee of the Company or a Company Affiliate, if the Recipient was not, directly or indirectly, involved in hiring or identifying such person as a potential recruit or assisting in the recruitment of such employee.

(b) *Non-Solicitation of, and Non-Interference with, Customers and Prospective Clients* . The Recipient agrees that during the Recipient's employment and during the Restricted Period, the Recipient shall not, directly or indirectly, for any person or entity other than the Company or any Company Affiliate, solicit, assist in soliciting for or accept business from any customer of the Company or any Company Affiliate, nor will the Recipient induce or encourage any such customer to discontinue or diminish his, her or its relationship or prospective relationship with the Company or any Company Affiliate, or divert business away from the Company or any Company Affiliate; provided, however, that general solicitation through advertisement shall not constitute solicitation for purposes of this provision. Anything to the contrary notwithstanding, the Company agrees that the Recipient shall not be deemed in violation of this Section 6(b) if an entity with which the Recipient is associated accepts business from a customer or client of the Company or a Company Affiliate, if the Recipient was not, directly or indirectly, involved in soliciting or identifying such customer or client as a potential customer or client of the competing entity.

(c) *Representations* . The Recipient agrees that all of the foregoing restrictions are reasonable and necessary to protect the Company's and/or any Company Affiliate's business and their Confidential Information and that the Recipient's eligibility for and receipt of the Award, are independently and together good and valuable consideration to compensate him or her for agreeing to all restrictions contained in this Agreement. The Recipient also acknowledges,

represents and warrants that the Recipient's knowledge, skills and abilities are sufficient to permit the Recipient to earn a satisfactory livelihood without violating these provisions. Further, the Recipient agrees that the Recipient shall not, following the termination of the Recipient's employment with the Company, represent or hold the Recipient out as being in any way connected with the business of the Company or any Company Affiliate.

(d) *Blue Pencil* . It is expressly understood and agreed that although the Recipient and the Company consider the restrictions contained in this section to be reasonable, if a final judicial determination is made by an arbitrator or a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against the Recipient, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if an arbitrator or a court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

Section 7. *[Repayment Requirement]* . If the Recipient's employment is terminated (or notice to terminate is given by the Recipient or the Company) for any reason other than death, Disability, Retirement, or termination by the Company without Cause within 12 months of the date the Recipient commences employment with the Company, any unvested portion of the Award shall be forfeited in its entirety on the Recipient's termination date without any payment to the Recipient and the Recipient shall be required to repay the Company within 14 days of the Recipient's termination date the net value (following any applicable tax and other statutory deductions) of any portion of the Award that the Recipient received pursuant to this Award Agreement.] [Section 7 only applicable to buy-out awards]

Section 8. *Tax Liability; Withholding Requirements* . The Recipient shall be solely responsible for any applicable taxes (including, without limitation, income and excise taxes) and penalties, and any interest that accrues thereon, that the Recipient incurs in connection with the receipt, vesting or payment of the Award. The Company shall be authorized to withhold from the Award any payment due or transfer made under the Award or from any compensation or other amount owing to the Recipient the amount (in cash or other property, or any combination thereof) of applicable withholding taxes due in respect of the Award, its settlement or any payment or transfer under the Award and to take such other action (including providing for elective payment of such amounts in cash or other property by the Recipient) as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes.

Section 9. *Recoupment/Clawback* . The Recipient hereby acknowledges and agrees that in order to comply with applicable law (including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act), the Committee retains the right at all times to decrease or terminate the Award and payments under the Award, and any and all amounts payable under the Award, or paid under the Award, shall be subject to clawback, forfeiture, and reduction to the extent determined necessary to comply with applicable law.

Section 10. *No Right to Continued Employment* . The grant of the Award shall not be construed as giving a Recipient the right to be retained in the employ of, or to continue to provide services to, the Company. The receipt of the Award is not intended to confer any rights on the Recipient except as set forth in this Award Agreement.

Section 11. *Section 409A of the Code* . This Award Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations thereunder, and the provisions of this Award Agreement shall be interpreted in a manner that satisfies the requirements of Section 409A of the Code, and this Award Agreement shall be operated accordingly. If any provision of this Award Agreement or any term or condition of the Award would otherwise conflict with this intent, the provision, term or condition shall be interpreted and deemed amended so as to avoid this conflict. Notwithstanding anything else in this Award Agreement, if the Board considers a Recipient to be a "specified employee" under Section 409A of the Code at the time of such Recipient's "separation from service" (as defined in Section 409A

of the Code), and the amount under the Award is “deferred compensation” subject to Section 409A of the Code any distribution that otherwise would be made to such Recipient with respect to the Award as a result of such separation from service shall not be made until the date that is six months after such separation from service, except to the extent that earlier distribution would not result in such Recipient’s incurring interest or additional tax under Section 409A of the Code. If the Award includes a “series of installment payments” (within the meaning of Section 1.409A-2(b)(2)(iii) of the Treasury Regulations), the Recipients’ right to the series of installment payments shall be treated as a right to a series of separate payments and not as a right to a single payment. Notwithstanding the foregoing, the tax treatment of the benefits provided under this Award Agreement is not warranted or guaranteed, and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Recipient on account of non-compliance with Section 409A of the Code.

Section 12. *Miscellaneous* .

(a) *Definitions* . For purposes of this Award Agreement:

i. “ **Beneficiary** ” means a person entitled to receive payments or other benefits that are available under the Award in the event of the Recipient’s death. If no such person can be named or is named by the Recipient, or if no Beneficiary designated by the Recipient is eligible to receive payments or other benefits that are available under the Award at the Recipient’s death, the Recipient’s Beneficiary shall be the Recipient’s estate. A Recipient may designate a Beneficiary or change a previous Beneficiary designation only at such times as prescribed by the Company, in its sole discretion, and only by using forms and following procedures approved or accepted by the Company for that purpose.

ii. “ **Board** ” means the board of directors of Citizens Financial Group, Inc.

iii. “ **Cause** ” means:

(1) any conviction (including a plea of guilty or of nolo contendere or entry into a pre-trial diversion program) of the Recipient for the commission of a felony or any conviction of any criminal offense within the scope of Section 19 of the Federal Deposit Insurance Act, 12 U.S.C. § 1829;

(2) the Recipient commits an act of gross misconduct, fraud, embezzlement, theft or material dishonesty in connection with the Recipient’s duties or in the course of the Recipient’s employment with the Company or any of its affiliates;

(3) failure on the part of the Recipient to perform his or her employment duties in any material respect, which is not cured to the reasonable satisfaction of the Company within 30 days after the Recipient receives written notice of such failure; or

(4) the Recipient engages in Detrimental Activity.

iv. “ **Change of Control** ” means the occurrence of any one or more of the following events:

(1) any person (as described in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) of the Exchange Act, including a “group” as defined in Section 13(d) of the Exchange Act), other than an employee benefit plan or trust maintained by the Company, becomes the beneficial owner (as described in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company’s outstanding securities entitled to vote generally in the election of directors;

(2) at any time during a period of 12 consecutive months, individuals who at the beginning of such period constituted the Board and any new member of the Board whose election or nomination for election was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was so approved, cease for any reason to constitute a majority of members of the Board; or

(3) the consummation of (A) a merger or consolidation of the Company with any other corporation or entity, other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity or, if applicable, the ultimate parent thereof) at least 50% of the combined voting power and total fair market value of the securities of the Company or such surviving entity or parent outstanding immediately after such merger or consolidation, or (B) any sale, lease, exchange or other transfer to any person (as such term is described in clause (1) above) of assets of the Company, in one transaction or a series of related transactions, having an aggregate fair market value of more than 50% of the fair market value of the Company and its subsidiaries (the "Company Value") immediately prior to such transaction(s), but only to the extent that, in connection with such transaction(s) or within a reasonable period thereafter, the Company's shareholders receive distributions of cash and/or assets having a fair market value that is greater than 50% of the Company Value immediately prior to such transaction(s).

Notwithstanding the foregoing or any provision of this Award Agreement to the contrary, if the Award provides for accelerated distribution on a Change of Control of amounts that constitute "deferred compensation" (as defined in Section 409A of the Code and the regulations thereunder), if the event that constitutes such Change of Control does not also constitute a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the Company's assets (in either case, as defined in Section 409A of the Code), such amount shall not be distributed on such Change of Control but instead shall vest as of the date of such Change of Control and shall be paid on the scheduled payment date specified in the Award Agreement, except to the extent that earlier distribution would not result in the Recipient who holds such Award incurring interest or additional tax under Section 409A of the Code.

v. " **Code** " means the Internal Revenue Code of 1986, as amended from time to time, and the rules, regulations and guidance thereunder. Any reference to a provision in the Code shall include any successor provision thereto.

vi. " **Committee** " means the compensation committee of the Board unless another committee is designated by the Board. If there is no compensation committee of the Board and the Board does not designate another committee, references herein to the "Committee" shall refer to the Board.

vii. " **Company Affiliate** " means the Company's parents, subsidiaries, affiliates or their respective successors (collectively, the "Company Affiliates" and each a "Company Affiliate").

viii. " **Detrimental Activity** " includes the following:

(1) The Recipient's disclosure to any unauthorized person, firm, or corporation or use or attempt to use for his or her own advantage or to the advantage of any other person, firm or corporation, any confidential information relating to the business affairs or trade secrets of the Company or any of its affiliates, howsoever obtained or provided, during the course of, or as a result of, his or her employment (the " **Confidential Information** "). Confidential Information includes, but is not limited to, information relating to employees, customers and suppliers (former, actual and potential), Company contracts, pricing structures, financial and marketing details, business plans, any technical data, designs, formulae, product lines, intellectual property, research activities and any information which may be deemed to be commercially or price sensitive in nature, whether printed, typed, handwritten, videotaped, transmitted or transcribed on data files or on any other type of media, including but not limited to electronic and digital media, whether or not labeled as "confidential";

(2) The Recipient violates the obligations set forth in Section 6(a) or 6(b) of this Award Agreement.

(3) Making any false or disparaging comments about the Company or any of its subsidiaries, affiliates, employees, officers, or directors; or

(4) Engaging in any activity which in the opinion of the Company is not consistent with providing an orderly handover of the Recipient's responsibilities.

The Recipient agrees that the foregoing restrictions are reasonable and necessary to protect the Company's business and that the grant of this Award, along with the benefits and attributes of the Recipient's employment by the Company, is good and valuable consideration to compensate the Recipient for agreeing to these restrictions.

ix. " **Disability** " means the Recipient is entitled to, and has begun to receive, long-term disability benefits under the long-term disability plan of the Company in which the Recipient participates.

x. " **Exchange Act** " means the Securities Exchange Act of 1934, as amended.

xi. " **Good Reason** " means any of the following changes as compared to the Recipient's terms of employment prior to a Change of Control:

(1) a material diminution in the Recipient's authority, duties, or responsibilities;

(2) a material diminution in the Recipient's base salary other than a general reduction in base salary that affects all similarly situated employees; or

(3) a relocation of the Recipient's principal place of employment by more than 50 miles from his or her current principal place of employment, unless the new place of employment is closer to the Recipient's home address.

Provided, however, that the Recipient must give written notice to the Company within 30 days of the initial existence of any of the foregoing changes, the Company shall have 30 days upon receipt of such notice to remedy the condition so as to eliminate the Good Reason, and if not remedied, the Recipient's employment must terminate no later than 60 days following the expiration of such cure period. Notwithstanding the foregoing, the Recipient's continued employment shall not constitute a waiver of the Recipient's rights with respect to any circumstance constituting Good Reason under this Award Agreement.

xii. " **Retirement** " means the Recipient's age plus years of service (in each case, including completed months) equals or exceeds 65, with a minimum of at least five years of service with the Company.

(b) *Notices.* All notices, requests and other communications under this Award Agreement shall be in writing and shall be delivered in person (by courier or otherwise), mailed by certified or registered mail, return receipt requested, or sent by facsimile transmission or by e-mail or any other form of electronic transmission or delivery approved by the Committee, as follows:

if to the Company, to:

Citizens Financial Group, Inc.  
600 Washington Blvd.  
Stamford, CT 06901  
Attention: Corporate Secretary

if to the Recipient, to the address that the Recipient most recently provided to the Company,

or to such other address, facsimile number, e-mail address or such other form of electronic transmission or delivery as such party may hereafter specify for the purpose by notice to the other parties hereto. All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. on a business day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed received on the next succeeding business day in the place of receipt. Notwithstanding anything to the contrary contained in this Award Agreement, the Company may,

in its sole discretion, deliver and, by acceptance of this grant, the Recipient hereby explicitly and unambiguously consents and agrees to the receipt and delivery of, any notices permitted or required hereunder, documents related to the Award and/or any other information (including, without limitation, information required to be delivered to the Recipient pursuant to applicable securities laws) regarding the Company and the Subsidiaries or the Award by electronic means, including but not limited to through the Recipient's electronic account, through another on-line or electronic account system established and maintained by the Company or another third party designated by the Company or via the Company website. Such consent shall remain in effect throughout the Recipient's term of employment or service with the Company and thereafter until withdrawn in writing by the Recipient. The Recipient acknowledges that the Recipient may receive from the Company a paper copy of any notices or documents delivered electronically at no cost to the Recipient by contacting the Company by telephone or in writing.

(c) *Entire Agreement* . This Award Agreement (including the terms specified in the Recipient's electronic account, as noted in Section 1 and Section 3) constitutes the entire agreement and understanding between the parties in respect of the subject matter hereof and supersedes all prior and contemporaneous arrangements, agreements and understandings, both oral and written, whether in term sheets, presentations or otherwise, between the parties with respect to the subject matter hereof.

(d) *Severability* . If any provision of this Award Agreement is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction, or would disqualify this Award Agreement under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Board, materially altering the intent of this Award Agreement, such provision shall be stricken as to such jurisdiction, and the remainder of this Award Agreement shall remain in full force and effect.

(e) *Amendment; Waiver* . No amendment or modification of any provision of this Award Agreement that has a material adverse effect on the Recipient shall be effective unless signed in writing by or on behalf of the Company and the Recipient; provided, however, that the Company may amend or modify this Award Agreement without the Recipient's consent to the extent any such amendment or modification is made to cause the Award to comply with applicable law, stock market or exchange rules and regulations or accounting or tax rules and regulations, to impose any "clawback" or recoupment provisions on the Awards in accordance with Section 9, or as otherwise set forth in this Award Agreement. No waiver of any breach or condition of this Award Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature. Any amendment or modification of or to any provision of this Award Agreement, or any waiver of any provision of this Award Agreement, shall be effective only in the specific instance and for the specific purpose for which made or given.

(f) *Administration; Determinations* . The Award Agreement shall be administered by the Committee, which shall be appointed by the Board. All decisions of the Committee shall be final, conclusive and binding upon all parties, including the Company, its shareholders, and the Recipient.

(g) *Dissolution or Liquidation* . In the event of the dissolution or liquidation of the Company, the Award will terminate immediately prior to the consummation of such action, unless otherwise determined by the Company.

(h) *Assignment* . Neither this Award Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by the Recipient.

(i) *Successors and Assigns; No Third-Party Beneficiaries* . This Award Agreement shall inure to the benefit of and be binding upon the Company and the Recipient and their respective heirs, successors, legal representatives and permitted assigns. Nothing in this Award Agreement, express or implied, is intended to confer on any person other than the Company and the Recipient, and their respective heirs, successors, legal representatives and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Award Agreement.

(j) *Governing Law; Waiver of Jury Trial.* This Award Agreement shall be governed by the laws of the State of Delaware, without application of the conflicts of law principles thereof. By acknowledging this Award Agreement electronically or signing it manually, as applicable, the Recipient waives any right that the Recipient may have to trial by jury in respect of any litigation based on, arising out of, under or in connection with this Award Agreement.

(k) *Unfunded Obligation.* The Award is an unfunded obligation and does not create and will not be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and the Recipient or any other person. To the extent that the Recipient becomes vested in the Award and acquires a right to receive payments from the Company pursuant to this Award Agreement, that right will be no greater than the right of any unsecured general creditor of the Company.

(l) *Discretionary Nature.* The grant of the Award does not create any contractual right or other right in the Recipient to receive any other Awards in the future. Future grants of Awards, if any, shall be at the sole discretion of the Company.

(m) *Recipient Undertaking; Acceptance.* The Recipient agrees to take whatever additional action and execute whatever additional documents the Company may deem necessary or advisable to carry out or give effect to any of the obligations or restrictions imposed on either the Recipient or the Award pursuant to this Award Agreement. The Recipient acknowledges receipt of a copy of this Award Agreement. The Recipient has read carefully, and understands, the provisions of this Award Agreement.

(n) *Dispute Resolution.* Except as provided in the last sentence of this paragraph to the fullest extent permitted by law, the Company and the Recipient agree to waive their rights to seek remedies in court, including but not limited to rights to a trial by jury. The Company and the Recipient agree that any dispute between or among them and/or their affiliates arising out of, relating to or in connection with this Award shall be resolved in accordance with a confidential two-step dispute resolution procedure involving: (a) Step One: non-binding mediation, and (b) Step Two: binding arbitration under the Federal Arbitration Act, 9 U.S.C. § 1, et. seq., or state law, whichever is applicable. Any such mediation or arbitration hereunder shall be under the auspices of the American Arbitration Association (“AAA”) pursuant to its then current AAA Commercial Arbitration Rules. No arbitration shall be initiated or take place with respect to a given dispute if the parties have successfully achieved a mutually agreed to resolution of the dispute as a result of the Step One mediation. The mediation session(s) and, if necessary, the arbitration hearing shall be held in the city/location selected by the Company in its sole discretion. The arbitration (if the dispute is not resolved by mediation) shall be conducted by a single AAA arbitrator, selected by the Company in its sole discretion. Any award rendered by the arbitrator, including with respect to responsibility for AAA charges (including the costs of the mediator and arbitrator), shall be final and binding, and judgment may be entered on it in any court of competent jurisdiction. In the unlikely event the AAA refuses to accept jurisdiction over a dispute, the Company and the Recipient agree to submit to JAMS mediation and arbitration applying the JAMS equivalent of the AAA Commercial Arbitration Rules. If AAA and JAMS refuse to accept jurisdiction, the parties may litigate in a court of competent jurisdiction.

(o) *Captions.* Captions provided herein are for convenience only and shall not affect the scope, meaning, intent or interpretation of the provisions of this Award Agreement.

(p) *Nature of Payments.* The Award granted hereunder shall constitute special incentive payments to the Recipient and shall not be taken into account in computing the amount of salary or compensation of the Recipient for the purpose of determining any retirement, death or other benefits under (i) any retirement, bonus, life insurance or other employee benefit plan of the Company, or (ii) any agreement between the Company and the Recipient, except as such plan or agreement shall otherwise expressly provide.

(q) *Data Privacy.* The Recipient understands that the Company and its affiliates hold certain personal information about the Recipient, including but not limited to the Recipient’s name, home address and telephone number, birthdate, social insurance number or other identification number, compensation, and details of the Award for purposes of administration

(the "Data"). As a condition of receipt of this Award, the Recipient explicitly consents to the collection, use, transfer and retention, in electronic or other form, of the Data by and among, as applicable, the Company, its affiliates and any third parties assisting the Company in administration of the Award, in each case, for the purpose of administering the Award.

**CITIZENS FINANCIAL GROUP, INC.**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**

(dollars in millions)	Year Ended December 31,				
	2016	2015	2014	2013 <sup>(2)</sup>	2012
<b>Computation of Earnings:</b>					
Income (loss) from continuing operations before income tax expense	\$1,534	\$1,263	\$1,268	(\$3,468)	\$1,024
Fixed charges	559	503	417	499	669
<b>Total Adjusted Earnings</b>	<b>\$2,093</b>	<b>\$1,766</b>	<b>\$1,685</b>	<b>(\$2,969)</b>	<b>\$1,693</b>
<b>Computation of Fixed Charges:</b>					
Interest expense	\$508	\$452	\$363	\$443	\$619
Portion of net rental expense deemed representative of interest <sup>(1)</sup>	51	51	54	56	50
<b>Total Fixed charges</b>	<b>\$559</b>	<b>\$503</b>	<b>\$417</b>	<b>\$499</b>	<b>\$669</b>
<b>Ratio of Earnings to Fixed Charges</b>	<b>3.7%</b>	<b>3.5%</b>	<b>4.0%</b>	<b>(5.9)%</b>	<b>2.5%</b>

<sup>(1)</sup> The portion of rents shown as representative of the interest factor is one-quarter of total net operating lease expenses.

<sup>(2)</sup> The deficiency for this period was \$3,468 million due in part to a goodwill impairment charge of \$4,435 million (\$4,080 million after tax).

## CITIZENS FINANCIAL GROUP, INC.

### COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS

(dollars in millions)	Year Ended December 31,				
	2016	2015	2014	2013 <sup>(2)</sup>	2012
<b>Computation of Earnings:</b>					
Income (loss) from continuing operations before income tax expense	\$1,534	\$1,263	\$1,268	(\$3,468)	\$1,024
Fixed charges	573	510	417	499	669
<b>Total Adjusted Earnings</b>	<b>\$2,107</b>	<b>\$1,773</b>	<b>\$1,685</b>	<b>(\$2,969)</b>	<b>\$1,693</b>
<b>Computation of Fixed Charges and Preferred Dividends:</b>					
Interest expense	\$508	\$452	\$363	\$443	\$619
Portion of net rental expense deemed representative of interest <sup>(1)</sup>	51	51	54	56	50
Preferred distribution	14	7	—	—	—
<b>Total Fixed Charges and Preferred Dividends</b>	<b>\$573</b>	<b>\$510</b>	<b>\$417</b>	<b>\$499</b>	<b>\$669</b>
<b>Ratio of Earnings to Fixed Charges and Preferred Dividends</b>	<b>3.7%</b>	<b>3.5%</b>	<b>4.0%</b>	<b>(5.9)%</b>	<b>2.5%</b>

<sup>(1)</sup> The portion of rents shown as representative of the interest factor is one-quarter of total net operating lease expenses.

<sup>(2)</sup> The deficiency for this period was \$3,468 million due in part to a goodwill impairment charge of \$4,435 million (\$4,080 million after tax).

**CITIZENS FINANCIAL GROUP, INC.  
SUBSIDIARIES**

Name of Subsidiary	Jurisdiction of Organization
1215 Financial Center Associates, Ltd.	OH
5801 Southfield Service Drive Corp.	DE
CFG Service Corp.	DE
Citizens Asset Finance, Inc.	NY
Citizens Bank, National Association	United States
Citizens Bank of Pennsylvania	PA
Citizens Capital Markets, Inc.	MA
Citizens Charitable Foundation	RI
Citizens Funding Corp.	NH
Citizens Insurance Holdings, Inc.	RI
Citizens One Community Development Corporation	NY
Citizens One NMTC CDE Corp.	DE
Citizens One NMTC CDE, LLC I	DE
Citizens One NMTC CDE, LLC II	DE
Citizens One NMTC CDE, LLC III	DE
Citizens One NMTC CDE, LLC IV	DE
Citizens One NMTC CDE, LLC V	DE
Citizens RI Investment Corp. IV	RI
Citizens Securities, Inc.	RI
Citizens Ventures, Incorporated	MA
Connecticut Realty Investors, Inc.	CT
Court Street Holding, Inc.	MA
CSB Investment Corp.	RI
ICX Corporation	OH
Lexington Savings Corp.	MA
Mass Investment Corp.	RI
Minuteman Investments Corporation	MA
Montgomery Service Corporation	PA
New England Acceptance Corporation	NH
PA Investment Corp. I	RI
PA Investment Corp. II	RI
PA Investment Corp. V	DE
RBS Citizens Insurance Agency, Inc.	OH
RI Realty Trust, Inc.	MA
Servco, Inc.	OH
Thistle Group Holding Co.	PA
West Register Citizens Corp.	DE
Windsor Realty Corp.	DE

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-207668 on Form S-3 and Registration Statement No. 333-198966 on Form S-8 of our reports dated February 22, 2018, relating to the financial statements of Citizens Financial Group, Inc. and its subsidiaries and the effectiveness of Citizens Financial Group Inc. and its subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Citizens Financial Group, Inc. for the year ended December 31, 2017.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 22, 2018

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

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I, Bruce Van Saun, certify that:

1. I have reviewed this Annual Report on Form 10-K of Citizens Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 22, 2018

/s/ Bruce Van Saun

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Bruce Van Saun

Chief Executive Officer

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

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I, John F. Woods, certify that:

1. I have reviewed this Annual Report on Form 10-K of Citizens Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 22, 2018

/s/ John F. Woods

\_\_\_\_\_  
John F. Woods

Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

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Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Citizens Financial Group, Inc. (the "Company"), does hereby certify that:

1. The Annual Report on Form 10-K of the Company for the year ended December 31, 2017 (the "Form 10-K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 22, 2018

/s/ Bruce Van Saun

\_\_\_\_\_  
Bruce Van Saun

Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff on request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

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Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Citizens Financial Group, Inc. (the "Company"), does hereby certify that:

1. The Annual Report on Form 10-K of the Company for the year ended December 31, 2017 (the "Form 10-K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 22, 2018

/s/ John F. Woods

\_\_\_\_\_  
John F. Woods

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff on request.