

CITIZENS FINANCIAL GROUP INC/RI  
Form 10-K  
March 03, 2015

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, 2014

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

For the Transition Period From  
(Not Applicable)  
Commission File Number 001-36636  
CITIZENS FINANCIAL GROUP, INC.  
(Exact name of the registrant as specified in its charter)  
Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)  
One Citizens Plaza, Providence, RI 02903  
(Address of principal executive offices, including zip code)

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

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

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

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(§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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

There were 545,901,116 shares of Registrant's common stock (\$0.01 par value) outstanding on February 1, 2015.

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 2015 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, 2014.

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CITIZENS FINANCIAL GROUP, INC.  
FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- our ability to remedy regulatory deficiencies and meet supervisory requirements and expectations;

- liabilities resulting from litigation and regulatory investigations;

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

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

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

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

- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on our revenue and businesses, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (“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;

management's ability to identify and manage these and other risks; and

any failure by us to successfully replicate or replace certain functions, systems and infrastructure provided by The Royal Bank of Scotland Group plc ("RBS Group").

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

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FORWARD-LOOKING STATEMENTS

amount of any such dividends. In addition, the timing and manner of the sale of RBS Group's remaining ownership of our common stock remains uncertain, and we have no control over the manner in which RBS Group may seek to divest such remaining shares. Any such sale could harm the price of our shares of common stock. See "Risk Factors — Risks Related to our Common Stock" in Part I, Item 1A, included elsewhere in this report.

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 elsewhere in this report.

Percentage changes, per share amounts, and ratios presented in this report are calculated using whole dollars.

## CITIZENS FINANCIAL GROUP, INC.

## PART I

## ITEM 1. BUSINESS

Headquartered in Providence, Rhode Island, with \$132.9 billion of total assets as of December 31, 2014, we are the 13<sup>th</sup> largest retail bank holding company in the United States (according to SNL Financial). Our approximately 17,700 employees strive to meet the financial needs of customers and prospects through approximately 1,200 branches operating in an 11-state footprint across the New England, Mid-Atlantic and Midwest regions and through our online, telephone and mobile banking platforms. We also maintain over 100 retail and commercial non-branch offices located both in our banking footprint and in eleven other states and the District of Columbia.

We deliver a comprehensive range of retail and commercial banking products and services to more than five million individuals, institutions and companies. Our 11-state branch banking footprint contains approximately 29.9 million households and 3.1 million businesses according to SNL Financial and as of December 31, 2014, approximately 75% of our loans were to customers located in our footprint.

Our primary subsidiaries are Citizens Bank, N.A. (“CBNA”), a national banking association whose primary federal regulator is the Office of the Comptroller of the Currency (“OCC”), and Citizens Bank of Pennsylvania (“CBPA”), a Pennsylvania-chartered savings bank regulated by the Department of Banking of the Commonwealth of Pennsylvania and supervised by the Federal Deposit Insurance Corporation (“FDIC”) as its primary federal regulator.

## Business Segments

We offer a broad set of banking products and services through our two operating segments — Consumer Banking and Commercial Banking — with a focus on providing local delivery and a differentiated customer experience. Because we operate in a highly competitive industry and believe that banking should have a personal touch, we have programs in place to train and prepare our colleagues to deliver a consistent, high-quality experience through every customer interaction. Furthermore, we seek to ensure that customers select us as their primary banking partner by taking the time to understand their banking needs, and we tailor our full range of products and services accordingly. To that end, our Consumer Banking value proposition is based on providing simple, easy to understand product offerings and a convenient banking experience with a more personalized approach. Commercial Banking focuses on offering a client-centric experience by leveraging an in-depth understanding of our clients’ and prospects’ businesses in order to proactively provide a solutions-oriented “Thought Leadership” value proposition.

The following table presents certain financial information for our segments as of and for the year ended December 31, 2014 and as of and for the year ended December 31, 2013:

(in millions)	As of and for the Year Ended December 31, 2014				As of and for the Year Ended December 31, 2013			
	Consumer Banking	Commercial Banking	Other <sup>(1)</sup>	Consolidated	Consumer Banking	Commercial Banking	Other <sup>(1)</sup>	Consolidated
Total loans and leases and loans held for sale (average)	\$47,745	\$37,683	\$4,316	\$89,744	\$45,106	\$34,647	\$6,044	\$85,797
Total deposits and deposits held for sale (average)	68,214	19,838	4,513	92,565	72,158	17,516	3,662	93,336
Net interest income (expense)	2,151	1,073	77	3,301	2,176	1,031	(149)	3,058
Noninterest income	899	429	350	1,678	1,025	389	218	1,632
Total revenue	3,050	1,502	427	4,979	3,201	1,420	69	4,690
Net income (loss) <sup>(2)</sup>	\$182	\$561	\$122	\$865	\$242	\$514	(\$4,182)	(\$3,426)



(1) Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets and liabilities, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, revenues, provision for credit losses and expenses not attributed to the Consumer Banking or Commercial Banking segments. For a description of non-core assets, see “Management's Discussion and Analysis of Financial Condition and Results of Operations — Analysis of Financial Condition — December 31, 2014 Compared with December 31, 2013 — Loans and Leases — Non-Core Assets” in Part II, Item 7, included elsewhere in this report.

(2) Includes a goodwill impairment charge of \$4.4 billion (\$4.1 billion after tax) in 2013. For more information, see “Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Year Ended December 31, 2014 Compared with Year Ended December 31, 2013 — Net Income (Loss)” in Part II, Item 7 and Note 8 “Goodwill” to our audited Consolidated Financial Statements in Part II, Item 8, included elsewhere in the report.

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Consumer Banking Segment

Consumer Banking serves retail customers and small businesses with annual revenues of up to \$25 million through a network that as of December 31, 2014 included approximately 1,200 branches operated in an 11-state footprint across the New England, Mid-Atlantic and Midwest regions, as well as through online, telephone and mobile banking platforms. Consumer Banking products and services include deposit products, mortgage and home equity lending, student loans, auto financing, credit cards, business loans, wealth management and investment services. Our Consumer Banking value proposition is based on providing simple, easy to understand product offerings and a convenient banking experience with a more personalized approach.

Consumer Banking is focused on winning, expanding and retaining customers through its value proposition: “Simple. Clear. Personal.” and is committed to delivering a differentiated experience through convenience and service. We were named by Money Magazine in its 2014 list of “The Best Banks in America” for the second year in a row and were cited for the level of customer convenience available through the branch network, customer contact center, and access to banking specialists via instant messaging.

Consumer Banking accounted for \$49.9 billion, or 56%, of outstanding loan balances in our operating segments as of December 31, 2014 and is organized around the customer products and services as follows:

**Distribution:** Provides a multi-channel distribution system with a network of approximately 1,200 branches, including over 345 in-store locations, as well as approximately 3,200 ATMs and a workforce of approximately 7,000 branch full-time equivalent (“FTE”) employees, which is complemented by a network of over 1,100 specialists covering home lending, wealth management and business banking. Our online and mobile capabilities offer customers the convenience of paying bills, transferring money between accounts and from person to person, in addition to a host of other everyday transactions through a robust digital platform. Lastly, the customer contact center provides customers with extended access to services.

**Everyday Banking:** Provides customers with deposit and payment products and services, including checking, savings, money market, certificates of deposit, debit cards, credit cards and overdraft protection. The business included approximately 2.2 million checking households and \$67.0 billion in deposits as of December 31, 2014.

**Home Lending Solutions (“HLS”):** Offers home equity loans, home equity lines of credit (“HELOCs”) and residential mortgages primarily in footprint and in select out-of-footprint states through a direct-to-consumer call center and a mortgage loan officer base of over 410 as of December 31, 2014. We ranked sixth nationally in HELOCs by outstanding balances as of December 31, 2014, according to SNL Financial. Our HLS business maintains relatively conservative underwriting practices. Home equity originations in 2014 of \$4.2 billion had a weighted average FICO score of 789 and an average loan-to-value ratio of 63%. In addition, 2014 mortgage originations of \$3.7 billion had a weighted average FICO score of 765 and loan-to-value of 71%.

**Indirect Auto Finance:** Provides financing for the purchase of both new and used vehicles through a network of over 6,700 automotive dealerships in 43 states as of December 31, 2014. We implemented a new origination platform in October 2013 that has facilitated more granular credit and pricing strategies which will enable us to optimize risk-adjusted returns. Our underwriting strategy, which has historically focused on serving super-prime borrowers, continues to focus on serving high quality borrowers through prudent expansion of originations across a broader credit spectrum to include predominantly prime borrowers. As a result, we have been able to increase organic originations and have entered into a flow purchase agreement with a third party to accelerate our move into the prime space. The business ranked 10th nationally among regulated depository institutions by outstanding balances as of December 31, 2014, according to SNL Financial, and ranked in the top five in three of our top nine markets according to

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Autocount based on third quarter 2014 loan originations. 2014 origination volume of \$6.4 billion had a weighted average FICO score of 759.

**Student Lending:** Offers a variety of student loan products including the TruFit Student Loan program, which features no origination, application or disbursement fees, competitive rates and a choice of repayment options. We launched the Student Lending business in 2009 and have expanded to partner with over 1,300 higher education schools in all 50 states. TruFit loan origination volume has increased from \$112 million in 2010 to \$305 million in 2014 and 2014 originations had a weighted-average FICO score of 779. We also launched the Education Refinance Loan product in January 2014, which provides consumers a way to refinance or consolidate multiple existing private and federal student loans. We originated approximately \$230 million of these loans in 2014 with a weighted-average FICO score of 786.

**Business Banking:** Serves small and medium enterprise businesses with annual revenues of up to \$25 million through a combination of branch-based employees, business banking officers and relationship managers. As of December 31, 2014, we employed a team of approximately 335 bankers with loans outstanding of \$3.0 billion and deposit balances of \$12.9 billion.

**Wealth Management:** Provides a full range of advisory services to clients with an array of banking, investment and insurance products and services through a sales force which includes more than 305 financial consultants, over 130 premier bankers and nine private banker teams. As of December 31, 2014, wealth management had approximately \$4.1 billion in assets under management and \$17.8 billion in investment brokerage assets.

#### Commercial Banking Segment

Commercial Banking primarily targets companies and institutions with annual revenues of \$25 million to \$2.5 billion and strives to be the lead bank for its clients. Commercial Banking offers a broad complement of financial products and solutions, including lending and leasing, trade financing, deposit and treasury management, foreign exchange and interest rate risk management, corporate finance and debt and equity capital markets capabilities. Commercial Banking provides thought leadership by leveraging an in-depth understanding of our clients' and prospects' businesses to proactively deliver compelling financial solutions with quality execution. While activity is concentrated within the 11-state footprint, Commercial Banking pursues business opportunities nationally on a targeted basis in a way that reinforces its core footprint business.

We believe our Commercial Banking segment provides a compelling value proposition based on "Thought Leadership" for clients. Results are evidenced by a top five ranking in both client penetration and number of lead relationships in middle market banking within the footprint based on Greenwich Associates research (Citizens - Footprint - \$25-500 million - Full Year 2014 survey). In addition, Commercial Banking strengthened its market share in loan syndications from 25<sup>th</sup> by dollar volume of syndicated loans and 18<sup>th</sup> by number of syndicated loans in 2010 to 10<sup>th</sup> by dollar volume and 8<sup>th</sup> by number of syndicated middle market loan deals for full year 2014, according to the Thomson Reuters Overall National Middle Market Bookrunner league table.

Commercial Banking is structured along lines of business, as well as product groups. Both the Corporate Finance & Capital 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. New clients are acquired through a coordinated approach to the market ranging from leveraging deep industry knowledge in specialized banking groups to deploying a regional coverage approach for middle market businesses with targeted profiles that are headquartered in its branch geographic footprint.

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Commercial Banking accounted for \$39.9 billion, or approximately 44%, of total loans outstanding in our operating segments as of December 31, 2014, and is organized as follows:

**Corporate Banking:** Targets domestic commercial and industrial clients, serving middle-market 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. The business offers a broad range of products, including lines of credit, term loans, commercial mortgages, domestic and global treasury management solutions, trade services, interest rate products and foreign exchange. The average revenue mix is approximately 70% interest income and 30% fee income. Loans are extended on both a secured and unsecured basis, and are substantially all at floating rates of interest. Corporate Banking is a general lending practice, however there are specialty industry verticals addressing U.S. subsidiaries of foreign corporations, technology, government entities, healthcare, not-for-profit and educational institutions, security alarm services, professional firms, franchise finance and business capital (asset-based lending). Additionally, we recently created an energy vertical and in the fourth quarter of 2014 acquired from RBS Group an experienced team of lending professionals and a portfolio of reserve-based lending commercial loans with an outstanding principal balance of \$417 million.

**Asset Finance:** Offers loan and tax- and non-tax-oriented leases for long-lived assets such as rail cars. The team also offers equipment financing term loans for middle-market and mid-corporate companies located in its branch footprint, as well as Fortune 500 companies throughout the United States. All transactions are secured by the assets financed and commitments tend to be fully drawn and most leases and loans are fixed rate. Areas of industry specialization include energy, utilities, and chemicals. The business also deploys dedicated teams to financing corporate aircraft.

**Commercial Real Estate (“CRE”):** Provides customized debt capital solutions for middle market and institutional developers and investors as well as real estate investment trusts (“REITs”). CRE provides financing for projects in the office, multi-family, industrial, core retail, healthcare and hospitality sectors. Loan types include construction financing, term debt and lines of credit. Most loans are secured by commercial real estate properties and all are non-owner occupied. Any owner-occupied commercial real estate would be originated through our Corporate Banking business.

**Corporate Finance & Capital Markets:** Delivers to customers through four key product groups including debt capital markets, corporate finance, global markets and strategic client acquisitions.

Capital Markets originates structures and underwrites multibank credit facilities and targets middle market, mid-corporate and private equity sponsors with a focus on offering value-added ideas to optimize their capital structure. From 2010 through 2014, Capital Markets was involved in closing 485 transactions and served in the lead-left role on 226 transactions and as joint-lead arranger on 259 transactions.

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Corporate Finance provides advisory services to middle-market and mid-corporate companies, including mergers and acquisitions, equity private placements and capital structure advisory. The team works closely with industry sector specialists within debt capital markets on proprietary transaction development which serves to originate deal flow in multiple bank products.

Global Markets is a customer-facing business providing foreign exchange and interest rate risk management services. The lines of business include the centralized leveraged finance team, which provides underwriting and portfolio management expertise for all leveraged transactions and relationships; the private equity team, which serves the unique and time-sensitive needs of private equity firms, management companies and funds; and the sponsor finance team, which provides acquisition and follow-on financing for new and recapitalized portfolio companies of key sponsors.

Strategic Client Acquisition (“SCA”) was created to accelerate new client relationships through active participation in primary and secondary loan markets. The team efficiently sources transactions through long-established relationships in traditional pro rata markets as well as institutional, or term loan B, markets across all sectors. The combination of pro rata and term loan B tranches allows SCA’s traditional banking team to forge new relationships and accelerate existing relationship development while generating accretive returns.

Treasury Solutions: Supports all lines of business in Commercial Banking and Business Banking with treasury management solutions, including domestic and international cash management, commercial cards and trade finance. Treasury Solutions provides products to solve client needs related to receivables, payables, information reporting and liquidity management. Treasury Solutions serves small business banking clients (up to \$500,000 annual revenue) up to large mid-corporate clients (over \$2.5 billion annual revenue).

#### Our History

In September 2014, Citizens Financial Group (CFG: NYSE) became a publicly-traded company in the largest traditional bank initial public offering (“IPO”) in U.S. history. The IPO represented an important step in our planned separation from RBS Group, which has announced its plans to monetize its remaining ownership stake by the end of 2016.

Our history dates back to High Street Bank, founded in 1828, which established Citizens Savings Bank in 1871. Citizens Savings Bank acquired a controlling interest in its founder by the 1940s, renaming the entity Citizens Trust Company. By 1981, we had grown to 29 branches in Rhode Island with approximately \$1.0 billion of assets, and in 1988 we became a wholly-owned subsidiary of RBS Group. Over the following two decades, we grew substantially through a series of over 25 strategic bank acquisitions, including:

• In 1988, we acquired Fairhaven Savings Bank in Massachusetts, our first retail banking expansion beyond Rhode Island;

• In 1996, we moved beyond southern New England when RBS and Bank of Ireland combined their New England banking operations through the merger of Citizens and First NH Bank in New Hampshire;

• In 1999 and 2000, we acquired the commercial banking group of State Street Corporation and Boston-based UST Corporation, including its U.S. Trust branches in the Boston area; these acquisitions doubled the size of our Massachusetts operations and made us New England’s second-largest bank, with more than \$30.0 billion in assets;

• In 2001, we acquired the regional banking business of Mellon Financial Corporation, which included \$14.4 billion in deposits, expanding our retail network outside of New England to Pennsylvania, Delaware and New Jersey; and

•

In 2004, we completed the largest transaction in our history by acquiring Charter One, which operated approximately 680 branches in nine states, and had \$41.3 billion in assets, and expanded our branch footprint into New York, Vermont, Michigan, Ohio, Illinois and Indiana.

These acquisitions greatly expanded our footprint throughout New England and into the Mid-Atlantic and the Midwest, transforming us from a local retail bank into one of the largest retail U.S. bank holding companies.

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## CITIZENS FINANCIAL GROUP, INC.

## Our Competitive Strengths

Our long operating history, through a range of challenging economic cycles, forms the basis for our competitive strengths. From our community bank roots, we bring a commitment to strong customer relationships, local service and an active involvement in the communities we serve. Our acquisitions enabled us to develop significant scale in highly desirable markets and broad product capabilities. The actions taken since the global financial crisis have resulted in a business model with solid asset quality, a stable core deposit mix and a superior capital position. In particular, we believe that the following strengths differentiate us from our competitors and provide a strong foundation from which to execute our strategy to deliver enhanced growth, profitability and returns.

**Significant Scale with Strong Market Penetration in Attractive Geographic Markets:** We believe our market share and scale in our footprint is central to our success and growth. With approximately 1,200 branches, approximately 3,200 ATMs, 17,700 employees, and over 100 non-branch offices as well as our online, telephone and mobile banking platforms, we serve more than five million individuals, institutions and companies. As of June 30, 2014, we ranked second by deposit market share in the New England region (Maine, New Hampshire, Vermont, Massachusetts, Rhode Island and Connecticut), and we ranked in the top five in nine of our key metropolitan statistical areas (“MSAs”), including Boston, Providence, Philadelphia, Pittsburgh and Cleveland according to SNL Financial. We believe this strong market share in our core regions, which have relatively diverse economies and affluent demographics, will help us achieve our long-term growth objectives. The following table sets forth information regarding our competitive position in our principal MSAs.

(dollars in millions)

MSA	Total Branches	Deposits	Market Rank <sup>(1)</sup>	Market Share <sup>(1)</sup>
Boston, MA	206	\$26,937	2	14.9%
Philadelphia, PA	181	14,307	5	4.4
Providence, RI	100	10,544	1	29.5
Pittsburgh, PA	128	7,505	2	8.6
Cleveland, OH	58	5,207	4	9.2
Detroit, MI	90	4,374	8	4.2
Manchester, NH	22	4,250	1	39.9
Albany, NY	25	3,139	2	13.1
Buffalo, NY	41	1,582	4	4.4
Rochester, NY	34	1,520	4	9.6

Source: FDIC, June 2014.

Excludes “non-retail banks” as defined by SNL Financial. The scope of “non-retail banks” is subject to the discretion of (1) SNL Financial, but typically includes: industrial bank and non-depository trust charters, institutions with over 20% brokered deposits (of total deposits), institutions with over 20% credit card loans (of total loans), institutions deemed not to broadly participate in the banking services market, and other nonretail competitor banks.

**Strong Customer Relationships:** We focus on building strong customer relationships by delivering a consistent, high-quality level of service supported by a wide range of products and services. We believe that we provide a distinctive customer experience characterized by offering the personal touch of a local bank with the product selection of a larger financial institution. Our Consumer Banking cross-sell efforts have improved to 5.0 products and services per retail household as of December 31, 2014 compared to 4.4 products and services as of December 31, 2010. Additionally, the overall customer satisfaction index as measured by J.D. Power and Associates improved 6.5% in the New England region from 2013 to 2014. Our ability to provide a unique customer experience is also evidenced by our Commercial Banking middle market team ranking among the top five in customer and lead bank penetration, with a 10% market penetration in our footprint based on Greenwich Associates’ rolling four-quarter data as of December 31, 2014.

**Stable, Low-Cost Core Deposit Base:** We have a strong funding profile, with \$95.7 billion of total deposits as of December 31, 2014, consisting of 27% in noninterest-bearing deposits and 73% in interest-bearing deposits. Noninterest-bearing deposits provide a lower-cost funding base, and we grew this base to \$26.1 billion at December 31, 2014, up 32% from \$19.7 billion at December 31, 2010. For the year ended December 31, 2014, our total average cost of deposits was 0.17%, down from 0.23% for the year ended December 31, 2013, 0.40% for the year ended December 31, 2012, 0.54% for the year ended December 31, 2011 and 0.77% for the year ended December 31, 2010.



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**Superior Capital Position:** We are among the most well capitalized large regional banks in the United States, with a Tier 1 common equity ratio of 12.4% compared to a peer average of 10.4% as of December 31, 2014 according to SNL Financial. Our peer regional banks consist of BB&T, Comerica, Fifth Third, KeyCorp, M&T, PNC, Regions, SunTrust and U.S. Bancorp. Our fully phased-in pro forma Basel III Common Equity Tier 1 (“CET1”) ratio at December 31, 2014 was 12.1%. Our strong capital position provides us the financial flexibility to continue to invest in our businesses and execute our strategic growth initiatives. Through recent capital optimization efforts, we have sought to better align our capital base with that of our bank peers by reducing our Tier 1 common equity capital and increasing other Tier 1 and Tier 2 capital levels. Most recently, we executed a capital exchange transaction with RBS Group on October 8, 2014 which involved the issuance of \$334 million of Tier 2 subordinated debt and the simultaneous repurchase of 14.3 million shares of common stock owned by RBS Group. In addition, we plan to continue our strategy of capital optimization by exchanging an additional \$500 million to \$750 million of common equity with the issuance of preferred stock, subordinated debt, or senior debt in 2015 and 2016, subject to regulatory approval and market conditions.

**Solid Asset Quality Throughout a Range of Credit Cycles:** Our experienced credit risk professionals and conservative credit culture, combined with centralized processes and consistent underwriting standards across all business lines, have allowed us to maintain strong asset quality through a variety of business cycles. As a result, we weathered the global financial crisis better than our peers: for the two-year period ending December 31, 2009, net charge-offs averaged 1.63% of average loans compared to a peer average of 1.76% according to SNL Financial. More recently, the credit quality of our loan portfolio has continued to improve with nonperforming assets as a percentage of total assets of 0.86% at December 31, 2014 compared to 1.20% and 1.55% as of December 31, 2013 and 2012, respectively. Net charge-offs declined substantially to 0.36% of average loans in 2014 versus 0.59% in 2013. Our allowance for loan and lease losses was 1.28% of total loans at December 31, 2014 compared with 1.42% as of December 31, 2013. We believe the high quality of our loan portfolio provides us with significant capacity to prudently seek to add more attractive, higher yielding risk-adjusted returns while still maintaining appropriate risk discipline and solid asset quality.

**Experienced Management Team Supported by a High-Performing, Talented Workforce:** Our leadership team of seasoned industry professionals is supported by a highly motivated, diverse set of managers and employees committed to delivering a strong customer value proposition. Our highly experienced and talented executive management team, whose members have more than 20 years of banking experience on average, provide strong leadership to deliver on our overall business objectives. We have recently made selective additions to our management team and added key business line leaders. Bruce Van Saun, our Chairman and CEO, has more than 30 years of financial services experience including four years as RBS Group Finance Director. Earlier in his career, Mr. Van Saun held a number of senior positions at The Bank of New York Mellon, Deutsche Bank, Wasserstein Perella Group and Kidder Peabody & Co.

**Commitment to Communities:** 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 that 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 59,000 volunteer hours companywide in 2014 and also served on approximately 480 community boards across our footprint. We believe our strong commitment to our communities provides a competitive advantage by strengthening customer relationships and increasing loyalty.

**Business Strategy**

Building on our core strengths, our objective is to be a top-performing bank that delivers well for each of our stakeholders by offering the best possible banking experience for customers. We plan to achieve this by leveraging our strong customer relationships, leading market share rankings in attractive markets, customer-centric colleagues, and our high quality balance sheet.

Our strategy is designed to maximize the full potential of our business and drive sustainable growth and enhanced profitability. As a core measure of success, our two- to three-year financial targets include a Return on Tangible Common Equity ("ROTCE") ratio of greater than 10% and an efficiency ratio in the 60% range. Our financial targets are based on numerous assumptions including the yield curve evolving consistent with market implied forward rates as of February 28, 2014, and that macroeconomic and competitive conditions are consistent with those used in our planning assumptions.

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While our strategic plan and our ROTCE target and its components are presented with numerical specificity, and we believe such targets to be reasonable, given the uncertainties surrounding our assumptions, including possible regulatory restrictions on activities we intend to pursue, there are significant risks that these assumptions may not be realized and thus our goals may not be achieved. Accordingly, our actual results may differ from these targets and the differences may be material and adverse, particularly if actual events adversely differ from one or more of our key assumptions. We caution investors not to place undue reliance on any of these assumptions or targets.

We intend to deliver on this by adhering to the following strategic principles:

• Offer customers a differentiated experience through the quality of our colleagues, products and services, and foster a culture around customer-centricity, commitment to excellence, leadership, teamwork and integrity.

• Build a great brand that invokes trust from customers and reinforces our value proposition of being “Simple. Clear. Personal.” for Consumer customers and providing solutions-oriented “Thought Leadership” to Commercial clients.

• Deliver attractive risk-adjusted returns by making good capital and resource allocation decisions, being good stewards of our resources and rigorously evaluating our execution.

• Operate with a strong balance sheet with regards to capital, liquidity and funding, coupled with a well-defined and prudent risk appetite.

• Maintain a balanced business mix between Commercial Banking and Consumer Banking.

• Position the bank as a ‘community leader’ that makes a positive impact on the communities and local economies we serve.

In order to successfully execute on these principles, we have developed the following strategic priorities, each of which are underpinned by a series of initiatives as summarized below. We have made solid progress on our strategic priorities and the underlying initiatives over the past year, due primarily to the strength of our business model, management team, culture of accountability and risk management framework.

Position Consumer Banking to deliver improved capabilities and profitability: Consumer Banking offers a “Simple. Clear. Personal.” value proposition to our customers. The focus is on building strong customer relationships along with a robust product portfolio that is designed to be simple and easy to understand while creating a fair value exchange for our customers. The following initiatives are being implemented to execute against our value proposition:

Reenergize household growth and deepen relationships. We strive to grow and deepen existing customer relationships by delivering a differentiated customer experience. We believe this approach will enable us to win, retain and expand customer relationships, as well as increase cross-sell and share of wallet penetration.

Build a strong residential mortgage business. Recognizing the critical importance of the mortgage product to the customer experience and relationship, we are building out our mortgage team and platform to achieve a solid market share position and generate consistent origination volumes.

• Invest in and grow Business Banking. We have recognized that strengthening efforts in the business banking market is critical to grow profitable relationships and drive scalable growth of the franchise.

• Expand and enhance Wealth Management. We view our wealth management business as an opportunity for continued growth and as vital to deepening the customer relationship and improving fee income generation.

Grow our Auto business. Our auto initiative supports diversification of revenue generation outside of our traditional retail distribution channels.

Drive growth in Education Finance. We have identified the underserved private student lending market as an attractive source of risk-adjusted revenue growth. We are well-positioned for growth in student lending with a unique education refinance product that serves a critical borrower need.

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These initiatives have already resulted in a stronger Consumer franchise highlighted by 2014 net checking account growth of over 78,000 and nearly 2.2 million checking households. The percent of new-to-bank customers with over two products within 30 days of account opening increased by 7.8 percentage points from 2013 to 30.4% in 2014. Additionally, Consumer Banking loans and leases of \$49.9 billion at December 31, 2014 grew \$4.9 billion, or 11%, from December 31, 2013. Finally, the overall customer satisfaction index for Consumer Banking as measured by J.D. Power and Associates improved 6.5% in the New England region from 2013 to 2014.

**Continue the momentum in Commercial Banking:** We continue to see further build-out of the Commercial Banking business as critical to achieving a balanced business mix, and consequently have grown the contribution of Commercial loans to be 44% of operating segment loans (compared to 38% at year end 2010). The initiatives below have enabled the Commercial Banking business to continue its positive momentum while building upon existing strengths to further develop the “Thought Leadership” value proposition.

**Build out mid-corporate and verticals.** Since the third quarter of 2013, we have been building capabilities nationally in the mid-corporate space, which is focused on serving larger, mostly public clients with annual revenue of more than \$500 million. The geographic expansion has been selective and in markets where our established expertise and product capabilities can be relevant.

**Development of Capital Markets.** We are strengthening capabilities in Capital Markets to provide comprehensive solutions to meet client needs, including the recent addition of an institutional sales capability and loan trading desk.

**Build out Treasury Solutions.** We have made investments to upgrade our Treasury Solutions systems and products while also strengthening the leadership team to better meet client needs and diversify the revenue base into other noninterest income areas.

**Leveraging Franchise Finance capabilities with credibility.** We are a top provider of capital to leading franchises including McDonald’s, Taco Bell, Dunkin’ Donuts, Buffalo Wild Wings, Wendy’s and Applebee’s. We are also broadening our target market to focus on regional restaurant operating companies and expanding penetration of gas station and convenience dealers.

**Core Commercial Banking growth.** We continue to build on our strong core lending capabilities in Middle Market, Commercial Real Estate and Asset Finance which has resulted in solid origination volumes.

The Commercial Banking business has continued to display solid financial results and executed well on these initiatives with loan portfolio growth of \$3.7 billion, or 10%, year-over-year along with strong deposit growth as average deposits increased \$2.3 billion in 2014, or 13%, compared to the average level of deposits for 2013. In addition, we improved our league table standings in the overall national middle market bookrunner league table to 8th by number of syndicated loans for the full year 2014 according to Thomson Reuters and received a number one rank by Greenwich Associates in our Net Promoter Score compared to the top four competitors in our footprint based on rolling four-quarter data through December 31, 2014. Net Promoter Score is a customer loyalty metric, which is calculated by subtracting the percentage of customers who on a scale of 1-10 are detractors (rating 0-6) from the percentage of customers who are promoters (rating 9-10).

**Grow the balance sheet to build scale and better leverage our cost base and infrastructure:** We have a scalable operating platform that has the capacity to accommodate a significantly larger balance sheet than our current size. Prior to the global financial crisis, we had expanded to nearly \$170 billion in assets which was then intentionally contracted in order to reposition the bank and strengthen our business profile through the runoff of non-core assets and reduced dependency on wholesale funding.

Over the past year, we have begun to grow the consolidated balance sheet again, through organic growth and selective portfolio purchases:

• Total assets increased \$10.7 billion to \$132.9 billion at December 31, 2014, or 9%, compared to December 31, 2013;

• Loans and leases (excluding loans and leases held for sale) increased by \$7.6 billion, or 9%, from December 31, 2013, reflecting a \$3.8 billion increase in commercial and a \$3.7 billion increase in retail loans; and

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Total deposits (excluding deposits held for sale) increased \$8.8 billion, or 10%, compared with December 31, 2013, driven by growth in term deposits, checking with interest, money market and demand deposits.

Balance sheet expansion is critical to executing on our strategic priority of enhancing our return profile and efficiency by better leveraging our existing capital position, infrastructure and expense base.

Develop a high-performing, customer-centric organization and culture: In the midst of an evolving and challenging business environment, we are focused on delivering the best possible banking experience through our colleagues. As such, we strive to ensure that managers and colleagues are customer centric, have a commitment to excellence and live the values and credo every day. To further strengthen the organization's health, we have embarked on initiatives focused on a variety of people issues including recruiting, talent management, succession planning, leadership development, organizational structure and incentives.

Continue to embed risk management throughout the organization and build strong relationships with regulators: We remain committed to implementing a comprehensive enterprise risk management program through enhancements across key management areas. Critical objectives of the program are to have fully developed and embedded policies and risk appetite, frameworks and standards, clearly articulated roles and responsibilities across all lines of defense, and a culture that reinforces and rewards risk-based behaviors.

Focus on Improved Efficiency and Disciplined Expense Management: We believe that our focus on operational efficiency is critical to our profitability and ability to reinvest in the franchise. We launched an initiative in late 2013 designed to improve the effectiveness, efficiency, and competitiveness of the franchise. Reflecting our focus on cost discipline, these expense initiatives delivered against milestones with 28% of targeted efficiency initiatives savings in 2014 with an expectation that we will achieve \$200 million by the end of 2016. Proceeds from the program are being reinvested in the franchise, including investments in technology and in our strategic initiatives designed to further improve the customer experience and position us for future growth.

Our strategic initiatives are focused on the fundamentals of growing customers, relationships, loans, deposits, total revenue and overall profitability. While the above priorities are designed to enhance performance over the long-term, successful execution to date has resulted in improved financial performance in 2014, as highlighted below:

Net income for 2014 of \$865 million increased from a loss of \$3.4 billion in 2013, which included an after-tax goodwill impairment charge of \$4.1 billion. Adjusted net income (excluding a net \$180 million after-tax gain related to the Chicago Divestiture and \$105 million after-tax restructuring charges and special noninterest expense items) of \$790 million in 2014 increased 18% compared to \$671 million in 2013 (excluding the goodwill impairment charge);

Net interest margin of 2.83% in 2014 remained relatively stable, down two basis points compared to 2013 despite the continued effect of the relatively stable low interest rate environment;

Credit quality continued to improve with net charge-offs declining to 0.36% of average loans in 2014 compared to 0.59% of average loans in 2013; and

ROTCE improved to 6.71%, from (25.91%) in 2013. Adjusted ROTCE (excluding the impact of the goodwill impairment, restructuring charges and special items previously mentioned) of 6.13% in 2014 improved 105 basis points from 5.08% in 2013.

The adjusted results above are not recognized under Accounting Principles Generally Accepted in the United States of America ("GAAP"). For more information on the computation of these non-GAAP financial measures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Principal Components of

Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures” in Part II, Item 7, included elsewhere in this report.

**Initial Public Offering**

In September 2014, we completed the largest traditional bank IPO in U.S. history which involved the sale of 161 million shares at \$21.50 per share, or \$3.5 billion of our common stock which was held by RBS Group. We did not receive any proceeds from the initial public offering. Our common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol “CFG.”



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As of December 31, 2014, RBS Group owned 70.5% of our common shares outstanding and has an agreement with its primary regulator and the European Commission that it will divest its remaining ownership interest by December 31, 2016, unless certain conditions occur.

Chicago Divestiture

Effective June 20, 2014, we divested certain assets and liabilities associated with our Chicago-area retail branches, small business relationships and select middle market relationships in a sale to U.S. Bancorp (“Chicago Divestiture”). The transaction included 103 branches, including 94 full-service branches, \$4.8 billion of deposits and \$1.0 billion in loans as of June 20, 2014. We received a 6% deposit premium in the sale which resulted in a gain on sale of \$288 million as a result of the transaction. The strategic rationale underlying the decision to sell the franchise was an inability to gain market share in the intensely competitive Chicago market without expending considerable resources. Rather, we were able to leverage the competitive dynamics of the demographically attractive market to sell the franchise at a meaningful gain. The capital generated from the gain on sale is being utilized to fund a number of key performance enhancement initiatives including delivery of greater efficiency and incremental earning asset generation.

Competition

The financial services industry in general and in our branch footprint 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 and money market funds. 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 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 to provide services previously limited to commercial banks has intensified competition.

In Consumer Banking, the industry has become increasingly dependent on and oriented towards technology-driven delivery systems, permitting transactions to be conducted by telephone and computer, as well as through online and mobile channels. In addition, technology has lowered the 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 rates on deposit products that are higher 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 particular, the competition for home equity lines and auto loans has intensified, resulting in pressure on pricing.

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 collateralized loan obligation (“CLO”) managers, hedge funds and private equity firms. Some larger competitors, including certain national banks that have a significant presence 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, customer service, quality of execution, range of products offered, price and reputation.

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, trade names, logos and pending registrations and are spending significant resources to develop our stand-alone brands. In connection with our initial public offering, we entered into a trademark license agreement, pursuant to which we were granted a limited license to use certain RBS trademarks (including the daisywheel logo) for an initial term of five years and, at our option, up to 10 years. We have changed the legal names of any of our subsidiaries that included

“RBS” and have continued operational and legal work to rebrand CFG and our banking subsidiaries. We expect the process of changing all marketing materials, operational materials, signage, systems, and legal entities containing “RBS” to our new brand name will take approximately 14 months and cost approximately \$14 million, excluding any incremental advertising and customer communication expenses. We expect to then shift the majority of our advertising and marketing budget to our new brand progressively as the different legal entities complete their individual brand name changes. We expect the shift in advertising and marketing investment to be completed no later than July 31, 2015.

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### Information Technology Systems

We have recently made and continue to make significant investments in our information technology systems for our banking and lending and cash management activities. We believe this is a necessary investment in order to offer new products and improve our overall customer experiences, as well as to provide scale for future growth and acquisitions. The technology investments include replacing systems that support our branch tellers, commercial loans, automobile loans and treasury solutions. Additional investments that are in process include creating an enterprise data warehouse to capture and manage data to better understand our customers, identify our capital requirements and support regulatory reporting and a new mortgage system for our home lending solutions business.

### Regulation and Supervision

Our operations are subject to extensive regulation, supervision and examination under federal and state law. These laws and regulations cover all aspects of our business, including lending practices, safeguarding deposits, customer privacy and information security, capital structure, 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 and creditors.

In 2010, President Obama signed into law the Dodd-Frank Act, which restructured the financial regulatory regime in the United States. 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. Various provisions of the Dodd-Frank Act, discussed in greater detail below, require the issuance of many implementing regulations which will take effect over several years, making it difficult to anticipate the overall impact to us, our subsidiaries or the financial industry more generally. Although the overall impact cannot be predicted with any degree of certainty, the Dodd-Frank Act will affect us across a wide range of areas.

As a result of and in addition to new legislation aimed at regulatory reform, such as the Dodd-Frank Act, and the increased capital and liquidity requirements introduced by the U.S. implementation of the Basel III framework (the capital components of which have become effective as to us on January 1, 2015, subject to certain phase-in provisions), the federal banking agencies (the Federal Reserve Board, the OCC and the FDIC) as well as the Consumer Financial Protection Bureau ("CFPB") are taking a more stringent approach to supervising and regulating financial institutions and financial products and services over which they exercise their respective supervisory authorities. We, our two banking subsidiaries and our products and services are all subject to greater supervisory scrutiny and enhanced supervisory requirements and expectations and face significant challenges in meeting them. We expect to continue to face greater supervisory scrutiny and enhanced supervisory requirements for the foreseeable future.

### General

As a bank holding company and financial holding company (as defined in the Bank Holding Company Act of 1956 ("Bank Holding Company Act")), we are subject to regulation, supervision and examination by the Federal Reserve Board, including through the Federal Reserve Bank of Boston.

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.

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 its deposits.

A principal objective of the U.S. bank regulatory system is to protect depositors by ensuring the financial safety and soundness of banks. To that end, the banking regulators have broad regulatory, examination and enforcement authority. The regulators regularly examine our operations, and CFG and our banking subsidiaries are subject to periodic reporting requirements.

The regulators have various remedies available if they determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of a banking organization's operations are unsatisfactory. The regulators may also take action if they determine that the banking organization or its management is violating or has violated any law or regulation. The regulators have the power to, among other things:

- enjoin "unsafe or unsound" practices;
- require affirmative actions to correct any violation or practice;
- issue administrative orders that can be judicially enforced;

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- direct increases in capital;
- direct the sale of subsidiaries or other assets;
- limit dividends and distributions;
- restrict growth;
- assess civil monetary penalties;
- remove officers and directors; and
- terminate deposit insurance.

CBNA and CBPA are subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged and limitations on the types of investments that may be made, activities that may be engaged in, the opening and closing of branches and types of services that may be offered. The consumer lending and finance activities of CBNA and CBPA are also subject to extensive regulation under various federal and state laws. These statutes impose requirements on the making, enforcement and collection of consumer loans and on the types of disclosures that must be made in connection with such loans. CBNA and CBPA and certain of their subsidiaries are also prohibited from engaging in certain tie-in arrangements in connection with extensions of credit, leases or sales of property, or furnishing products or services.

In addition, CBNA and CBPA are subject to regulation, supervision and examination by the CFPB. The CFPB has broad authority to, among other things, regulate the offering and provision of consumer financial products by depository institutions 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.

The Dodd-Frank Act established the Financial Stability Oversight Council, which has oversight authority for monitoring and regulating systemic risk, and can recommend prudential standards, reporting and disclosure requirements to the Federal Reserve Board for systemically important financial institutions.

#### Financial Holding Company Regulation

The Gramm-Leach-Bliley Act of 1999 (“GLBA”) permits a qualifying bank holding company to become a financial holding company. Financial holding companies may engage in a broader range of activities than those permitted for a bank holding company, which are limited to (i) banking, managing or controlling banks, (ii) furnishing services to or performing services for subsidiaries and (iii) activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. GLBA broadens the scope of permissible activities for financial holding companies to include, among other things, securities underwriting and dealing, insurance underwriting and brokerage, merchant banking and other activities that are declared by the Federal Reserve Board, in cooperation with the Treasury Department, to be “financial in nature or incidental thereto” or that the Federal Reserve Board declares 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 Federal Reserve Board.

We have elected and qualified for financial holding company status under the GLBA. To maintain financial holding company status, a financial holding company and its banking subsidiaries must remain well capitalized and well managed, and maintain a Community Reinvestment Act (“CRA”) rating of at least “Satisfactory.” If a financial holding company ceases to meet these requirements, the Federal Reserve Board’s regulations provide that we must enter into an agreement with the Federal Reserve Board to comply with all applicable capital and management requirements. Until the financial holding company returns to compliance, the Federal Reserve Board 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 Federal Reserve Board. In addition, the failure to meet such requirements could result in other material restrictions on the activities of the financial holding company and 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. Any restrictions imposed on our activities by the Federal Reserve Board may not necessarily be

made known to the public. If the company does not return to compliance within 180 days, the Federal Reserve Board may require divestiture of the financial holding company's depository institutions. Failure to satisfy the financial holding company requirements could also result in loss of financial holding company status. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state.

In March 2014, the OCC communicated its determination that CBNA is not currently both well capitalized and well managed, as those terms are defined in applicable regulations, based on certain minimum capital ratios and supervisory ratings,

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respectively, and consequently no longer meets the condition to own a financial subsidiary. A financial subsidiary is permitted to engage in a broader range of activities, similar to those of a financial holding company, than those permissible for a national bank itself. CBNA has two financial subsidiaries, Citizens Securities, Inc. (doing business as CCO Investment Services Corp.), a registered broker-dealer, and RBS Citizens Insurance Agency, Inc., a dormant entity, although it continues to collect commissions on certain outstanding insurance policies. CBNA has entered into an agreement with the OCC pursuant to which it must develop a remediation plan, which must be approved by the OCC, setting forth the specific actions it will take to bring itself back into compliance with the conditions to own a financial subsidiary and the schedule for achieving that objective. Until CBNA addresses the deficiencies to the OCC's satisfaction, CBNA will be subject to restrictions on its ability to acquire control or build an interest in any new financial subsidiary and to commence new activities in any existing financial subsidiary, without the prior approval of the OCC. If CBNA fails to remediate the deficiencies, it may have to divest itself of its financial subsidiaries and comply with any additional limitations or conditions on its conduct as the OCC may impose. CBNA has developed a plan to address the deficiencies and has implemented a comprehensive enterprise-wide program, through which many deficiencies, we believe, have been addressed.

Separately, CBNA is also making improvements to its compliance management systems, risk management and deposit reconciliation practices in order to address deficiencies in those areas. CBPA is making improvements to address deficiencies in its deposit reconciliation practices, overdraft fees, identity theft add-on products, third-party payment processor activities, oversight of third-party providers, compliance program, policies, procedures and training, consumer complaints process and anti-money laundering controls. These efforts require us to make investments in additional resources and systems and also require a significant commitment of managerial time and attention.

We are also required to make improvements to our overall compliance and operational risk management programs and practices in order to comply with enhanced supervisory requirements and expectations and to address weaknesses in retail credit risk management, liquidity risk management, model risk management, outsourcing and vendor risk management and related oversight and monitoring practices and tools. Our and our banking subsidiaries' consumer compliance program and controls also require improvement, particularly with respect to deposit reconciliation processes, fair lending and mortgage servicing.

Currently, under the Bank Holding Company Act, we may not be able to engage in certain categories of new activities or acquire shares or control of other companies other than in connection with internal reorganizations.

#### Standards for Safety and Soundness

The Federal Deposit Insurance Act ("FDIA") requires the Federal Reserve Board, 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. Under Section 616 of the Dodd-Frank Act, which codifies the Federal Reserve Board's long-standing "source of strength" doctrine, any bank holding company that controls an insured depository institution must serve as a source of financial and managerial strength for its depository institution subsidiary. 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 Federal Reserve Board may require a bank holding company to provide such support at times when it may not have the financial resources to do so or when doing so is not otherwise in the interests of CFG or its shareholders or creditors.

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.

#### Dividends

Various federal and state statutory provisions and regulations, as well as regulatory expectations, limit the amount of dividends that we and our subsidiaries may pay. 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 be paid only to the extent that retained net profits (as defined and interpreted by regulation), including the portion transferred to surplus, exceed bad debts (as defined by regulation). CBNA is currently required to seek the OCC’s approval prior to paying any dividends to us. 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



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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.

Furthermore, with respect to both CBNA and CBPA, if, in the opinion of the applicable federal regulatory agency, either is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), the regulator may require, after notice and hearing, that such bank cease and desist from such practice. The OCC and the FDIC have indicated that the payment of dividends would constitute an unsafe and unsound practice if the payment would reduce a depository institution's capital to an inadequate level. The banking agencies have significant discretion to limit or even preclude dividends, even if the statutory quantitative thresholds are satisfied.

Supervisory stress tests conducted by the Federal Reserve Board in connection with its annual Comprehensive Capital and Analysis Review ("CCAR") process affect our ability to make capital distributions. As part of the CCAR process, the Federal Reserve Board evaluates institutions' capital adequacy and internal capital adequacy assessment processes to ensure that they have sufficient capital to continue operations during periods of economic and financial stress. The Federal Reserve Board must approve any planned distribution of capital in connection with the CCAR process. The Federal Reserve Board will either object to our capital plan, in whole or in part, or provide a notice of non-objection to us by March 31 of a calendar year. In March 2014, the Federal Reserve Board objected on qualitative grounds to our capital plan submitted as part of the CCAR process. In its public report entitled "Comprehensive Capital Analysis and Review 2014: Assessment Framework and Results," the Federal Reserve Board cited significant deficiencies in our capital planning processes, including inadequate governance, weak internal controls and deficiencies in our practices for estimating revenues and losses under a stress scenario and for ensuring the appropriateness of loss estimates across our business lines in a specific stress scenario. Although the Federal Reserve Board acknowledged that bank holding companies such as ours that are new to the CCAR process are subject to different expectations, our weaknesses were considered serious enough to warrant the Federal Reserve Board's objection based on its qualitative assessment of our capital planning process. As a result, we are not permitted to increase our capital distributions above 2013 levels until a new capital plan is approved by the Federal Reserve Board. We submitted a new capital plan on January 5, 2015, and we cannot assure you that the Federal Reserve Board will not object to that capital plan or that, even if it does not object to it, our planned capital distributions will not be significantly modified.

In addition, the ability of banks and bank holding companies to pay dividends and make other forms of capital distribution will also depend on their ability to maintain a sufficient capital conservation buffer under the U.S. Basel III capital framework (described further below). The capital conservation buffer requirements will be phased in beginning on January 1, 2016. The ability of banks and bank holding companies to pay dividends, and the contents of their respective dividend policies, could be impacted by a range of regulatory changes made pursuant to the Dodd-Frank Act, many of which still require final implementing rules to become effective. In addition, the Federal Reserve Board recently amended its capital planning and stress testing rules to, among other things, generally limit a bank holding company's ability to make quarterly capital distributions — that is, dividends and share repurchases — commencing April 1, 2015 if the amount of the bank's actual cumulative quarterly capital issuances of instruments that qualify as regulatory capital are less than the bank had indicated in its submitted capital plan as to which it received a non-objection from the Federal Reserve Board, subject to certain qualifications and exceptions.

#### Federal Deposit Insurance Act

The FDIA imposes various requirements on insured depository institutions. For example, the FDIA requires, among other things, that the federal banking agencies take "prompt corrective action" in respect of depository institutions that do not meet minimum capital requirements, which are described below in "Capital." The FDIA sets forth the following five capital tiers: "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors that are established by regulation.

The FDIA prohibits any depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be "undercapitalized." "Undercapitalized" institutions are subject to growth limitations and are required to submit a capital

restoration plan. For a capital restoration plan to be acceptable, among other things, the depository institution's parent holding company must guarantee that the institution will comply with the capital restoration plan. If a depository institution fails to submit an acceptable capital restoration plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," orders to elect a new board of directors, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

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),

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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.”

The FDIA requires CBNA and CBPA to pay deposit insurance assessments. Deposit insurance assessments are based on average consolidated total assets, less average tangible equity and various other regulatory factors included in a FDIC assessment scorecard. Deposit insurance assessments are also affected by the minimum reserve ratio with respect to the Deposit Insurance Fund (“DIF”). The minimum reserve ratio is currently 2%, and the FDIC is free to increase this ratio in the future.

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 and 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 it is in danger of default.

#### Capital

We must comply with capital adequacy standards established by the Federal Reserve Board. CBNA and CBPA must comply with similar capital adequacy standards established by the OCC and FDIC, respectively. We currently have capital in excess of the “well-capitalized” standards described below. For more detail on our regulatory capital, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Capital” in Part II, Item 7, included elsewhere in this report.

#### Basel III Final Rules Applicable to Us and Our Banking Subsidiaries

In July 2013, the Federal Reserve Board, OCC and FDIC issued the U.S. Basel III final rule. The final rule implements the Basel III capital framework and certain provisions of the Dodd-Frank Act, including the Collins Amendment, which establishes minimum risk-based capital and leverage requirements on a consolidated basis for insured depository institutions and their bank holding companies. Certain aspects of the final rule, such as the new minimum capital ratios, changes to the prompt corrective action ratios to reflect the higher minimum capital ratios for the various capital tiers and the revised methodology for calculating risk-weighted assets, became effective on January 1, 2015. Other aspects of the final rule, such as the capital conservation buffer and the new regulatory deductions from and adjustments to capital, will be phased in over several years beginning on January 1, 2015. The U.S. Basel III final rule includes a new minimum ratio of CET1 capital to risk-weighted assets of 4.5% and a CET1 capital conservation buffer of greater than 2.5% of risk-weighted assets that will apply to all U.S. banking organizations. Failure to maintain the capital conservation buffer will result in increasingly stringent restrictions on a banking organization’s ability to make dividend payments and other capital distributions and pay discretionary bonuses to executive officers. The final rule also increases the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6%, while maintaining the minimum total risk-based capital ratio of 8%. In addition, for the largest and most internationally active U.S. banking organizations, the final rule includes a new minimum supplementary leverage ratio that takes into account certain off-balance sheet exposures.

The U.S. Basel III final rule focuses regulatory capital on CET1 capital, and introduces new regulatory adjustments and deductions from capital as well as narrower eligibility criteria for regulatory capital instruments. Consistent with the requirements of the Collins Amendment, the new eligibility criteria for regulatory capital instruments results in, among other things, trust preferred securities no longer qualifying as Tier 1 capital for bank holding companies, such as us. The final rule also revises the methodology for calculating risk-weighted assets for certain types of assets and exposures.

#### Capital Requirements Applicable to Us, As in Effect on December 31, 2014

Under the “Basel I” regulatory capital framework that was in effect for us and our banking subsidiaries as of December 31, 2014, capital was divided into two tiers. Tier 1 capital consisted principally of stockholders’ equity less any amounts of goodwill, other intangible assets, non-financial equity investments and other items that are required to be deducted. Tier 2 capital consisted principally of term subordinated debt and, subject to limitations, general allowances for loan losses. Assets were adjusted under the risk-based guidelines to take into account different risk characteristics. Quarterly average on-balance sheet assets for purpose of the leverage ratio did not include goodwill, other intangible

assets or items that the Federal Reserve Board has determined should be deducted from Tier 1 capital.

Under the then-applicable capital adequacy guidelines, bank holding companies had to maintain a Tier 1 risk-based capital ratio of at least 4%, a total risk-based capital ratio of at least 8% and a leverage ratio of at least 4%. To qualify as “well capitalized,” a bank holding company had to maintain a Tier 1 risk-based capital ratio of at least 6%, a total risk-based capital ratio of at least 10% and a leverage ratio of at least 5%.

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### Liquidity Standards

The Federal Reserve Board evaluates our liquidity as part of the supervisory process. In September 2014, the Federal Reserve Board, OCC and FDIC issued a final rule to implement the Basel III Liquidity Coverage Ratio (“LCR”). The LCR is a quantitative liquidity metric designed by the Basel Committee to ensure that banks have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. The Basel Committee contemplates that major jurisdictions will begin to phase in the LCR requirement on January 1, 2015. The final U.S. LCR rule applies a modified version of the LCR to large bank holding companies such as us. The modified version of the LCR differs in certain respects from the Basel Committee’s version of the LCR, including a narrower definition of high-quality liquid assets, different prescribed cash inflow and outflow assumptions for certain types of instruments and transactions, and a shorter phase-in schedule that begins on January 1, 2015 and ends on January 1, 2017.

The Basel Committee also has finalized its Net Stable Funding Ratio (“NSFR”), a quantitative liquidity metric designed to promote the resilience of a bank’s liquidity risk profile over a longer period than the LCR. The NSFR establishes a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution’s assets and activities over a one-year horizon. The NSFR has been developed to provide a sustainable maturity structure of assets and liabilities. The final rule will be implemented as a minimum standard by January 1, 2018. Federal banking regulators have not yet proposed rules to implement the NSFR in the United States.

In addition, under the Dodd-Frank Act, the Federal Reserve Board has implemented enhanced prudential standards for bank holding companies with \$50 billion or more in total consolidated assets. See “—Enhanced Prudential Standards.” These regulations will require us to conduct regular liquidity stress testing over various time horizons and to maintain a buffer of higher liquid assets sufficient to cover expected net cash outflows and projected loss or impairment of funding sources for a short-term liquidity stress scenario. This liquidity buffer requirement is designed to complement the Basel III LCR.

#### Stress Testing Requirements

The Federal Reserve Board, OCC and FDIC have promulgated final rules under the Dodd-Frank Act requiring us, CBNA and CBPA to conduct annual stress tests and publish a summary of the results. Separately, the Federal Reserve Board has issued an interim final rule specifying how large bank holding companies should incorporate the U.S. Basel III capital standards into their 2014 capital plan and stress test capital projections. Among other things, the interim final rule requires large bank holding companies to project both their CET 1 risk-based capital ratio using the methodology under existing capital guidelines and their CET 1 risk-based capital ratio under the U.S. Basel III capital standards, as such standards phase in over the nine-quarter planning horizon.

#### Final Regulations Under the Volcker Rule

In December 2013, the Federal Reserve Board, OCC, FDIC, the United States Securities and Exchange Commission (“SEC”) and the Commodity Futures Trading Commission issued final rules to implement the Volcker Rule. The Volcker Rule prohibits an insured depository institution, such as CBNA and CBPA, and its affiliates from (1) engaging in proprietary trading or (2) investing in, sponsoring or having certain relationships with certain types of funds, both subject to certain limited exceptions. On December 18, 2014, the Federal Reserve Board issued an order extending the Volcker Rule’s conformance period until July 21, 2016, for investments in and relationships with “covered funds” and certain foreign funds that were in place on or prior to December 31, 2013. Subject to these extensions, we have until July 2015 to comply with other provisions of the Volcker Rule. These Volcker Rule prohibitions are expected to impact the ability of U.S. banking organizations to provide investment management products and services that are competitive with non-banking firms generally and with non-U.S. banking organizations in overseas markets. The Volcker Rule would also effectively prohibit short-term trading strategies by any U.S. banking organization if those strategies do not fall under the limited exceptions, such as the exceptions for market making-related activities and risk-mitigating hedging.

#### Resolution Plans

Federal Reserve Board and FDIC regulations require a bank holding company with more than \$50 billion in assets to annually submit a resolution plan that explains how, in the event of material financial distress or failure, the bank

holding company would be resolved in a rapid, orderly and systemically safe manner under the bankruptcy code. An insured depository institution with more than \$50 billion in assets must submit to the FDIC a resolution plan that explains how the institution 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 Federal Reserve Board 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 Federal Reserve Board 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. We timely submitted our resolution plan, jointly

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with RBS, on October 1, 2014. When RBS no longer controls us for bank regulatory purposes, we will separately file our own resolution plan with the Federal Reserve Board and FDIC.

Enhanced Prudential Standards

The Dodd-Frank Act requires the Federal Reserve Board to impose liquidity, single counterparty credit limits, risk management and other enhanced prudential standards for bank holding companies with \$50 billion or more in total consolidated assets, including us. The Federal Reserve Board on February 18, 2014 approved a final rule implementing certain of the enhanced prudential standards. Under the final rule, we have to comply with various liquidity risk management standards and maintain a liquidity buffer of unencumbered highly liquid assets based on the results of internal liquidity stress testing. The final rule also establishes certain requirements and responsibilities for our risk committee and mandates certain risk management standards. Final rules on single counterparty credit limits and an early remediation framework have not yet been promulgated.

Heightened Expectations

In September 2014, the OCC finalized guidelines that establish heightened 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 the bank's risk profile is easily distinguished and separate from the parent 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 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.

Protection of Customer Personal Information

The privacy provisions of the 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 Federal Reserve Board, govern the use and provision of information to consumer reporting agencies.

Federal and state banking agencies have prescribed standards for maintaining the security and confidentiality of consumer information, and we are subject to such standards, as well as certain federal and state laws or standards for notifying consumers in the event of a security breach.

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 (1) 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 (2) 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.

Community Reinvestment Act ("CRA") Requirements

The CRA requires the banking agencies to evaluate the record of us and our banking subsidiaries in meeting the credit needs of our local communities, including low and moderate income neighborhoods. These evaluations are 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.

**Rules Affecting Debit Card Interchange Fees**

The Federal Reserve Board issued final rules, effective October 1, 2011, that establish standards, including a cap, for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions.

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Consumer Financial Protection Regulations

The consumer protection provisions of the Dodd-Frank Act, including the transfer of much of the rulemaking, supervision and enforcement authority under various consumer financial laws to the CFPB, and the CFPB's subsequent regulatory, supervisory, and enforcement activity have created a more intense and complex environment for consumer finance regulation. The CFPB is authorized to, among other things, engage in consumer financial education, monitor consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. We expect increased oversight of financial services products by the CFPB, which are likely to affect our operations. The CFPB has significant authority to implement and enforce federal consumer finance laws, including the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Credit Billing Act and new requirements for financial services products provided for in the Dodd-Frank Act, as well as the authority to identify and prohibit unfair, deceptive or abusive acts and practices. The review of products and practices to prevent such acts and practices is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It also could result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties.

In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief and/or monetary penalties. The Dodd-Frank Act and accompanying regulations, including regulations to be promulgated by the CFPB, are being phased in over time. Although some regulations have been promulgated, many others have not yet been proposed or finalized. For example, the CFPB announced that it is considering new rules regarding debt collection practices, and has proposed new regulations of prepaid accounts and proposed amendments to its regulations implementing the Home Mortgage Disclosure Act. We cannot predict the terms of all of the final regulations, their intended consequences or how such regulations will affect us or our industry.

The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

Moreover, retail activities of banks are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by banks are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to federal laws applicable to credit transactions, such as:

- the federal Truth-In-Lending Act and Regulation Z issued by the CFPB, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act and Regulation C issued by the CFPB, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act and Regulation B issued by the CFPB, prohibiting discrimination on the basis of various prohibited factors in extending credit;
- the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- the Service Members Civil Relief Act, applying to all debts incurred prior to commencement of active military service (including credit card and other open-end debt) and limiting the amount of interest, including service and renewal charges and any other fees or charges (other than bona fide insurance) that is related to the obligation or liability.

Deposit operations also are subject to, among others:

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the Truth in Savings Act and Regulation DD issued by the CFPB, which require disclosure of deposit terms to consumers;

• the Expected Funds Availability Act and Regulation CC issued by the Federal Reserve Board, which relates to the availability of deposit funds to consumers;

• the Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and

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the Electronic Funds Transfer Act and Regulation E issued by the CFPB, which governs automatic deposits to and withdrawals from deposit accounts and consumer rights and liabilities arising from the use of automated teller machines and other electronic banking services.

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 finalized 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 compensation; and (iv) comply with new disclosure requirements and standards for appraisals and escrow accounts maintained for “higher priced mortgage loans.” These new rules create operational and strategic challenges for us, as we are both a mortgage originator and a servicer. Additional rulemaking affecting the residential mortgage business is also expected. These rules and any other new regulatory requirements promulgated by the CFPB and other federal or state regulators could require changes to our business, result in increased compliance costs and affect the streams of revenue of such business.

In addition, our two banking subsidiaries are currently subject to consent orders issued by the OCC and the FDIC in connection with their findings of deceptive marketing and implementation of some of our checking account and funds transfer products and services. Among other things, the consent orders require us to remedy deficiencies and develop stronger compliance controls, policies and procedures. We have made progress and continue to make progress in addressing these requirements, but the consent orders remain in place and we are unable to predict when they may be terminated.

#### 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 2009, the federal banking regulators issued additional guidance on commercial real estate lending that emphasizes these considerations.

In addition, the Dodd-Frank Act contains provisions that may cause us to reduce the amount of our commercial real estate lending and increasing the cost of borrowing, including rules relating to risk retention of securitized assets.

Section 941 of the Dodd-Frank Act requires, among other things, a loan originator or a securitizer of asset-backed securities to retain a percentage of the credit risk of securitized assets. The banking agencies and other federal agencies have jointly promulgated a final rule to implement these requirements.

#### Transactions with Affiliates and Insiders

A variety of legal limitations restrict us from lending money to, borrowing money from, or in some cases transacting business with CBNA and CBPA. Among such restrictions to which we are subject are Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Board Regulation W. Section 23A places limits on certain specified “covered transactions,” which include loans or extensions of credit to, investments in or certain other transactions with affiliates, as well as the amount of advances to third parties collateralized by the securities or obligations of affiliates. The

aggregate of all covered transactions is 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%. Also, a bank is prohibited from purchasing low-quality assets from any of its affiliates. Section 608 of the Dodd-Frank Act broadens the definition of "covered transactions" to include derivative transactions and the borrowing or lending of securities if the transaction will cause a bank to have credit exposure to an affiliate. The revised definition also includes the acceptance of debt obligations of an affiliate as collateral for a loan or extension of credit to a third party. Furthermore, reverse repurchase transactions are viewed as extensions

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of credit (instead of asset purchases) and thus become subject to collateral requirements. The Federal Reserve has not yet issued regulations to implement Section 608.

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 Federal Reserve Board also may designate banking subsidiaries as affiliates.

Pursuant to Federal Reserve Board 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.

Anti-Money Laundering; USA PATRIOT Act; Office of Foreign Assets Control (“OFAC”)

Institutions must 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. Anti-money laundering obligations have been substantially strengthened as a result of the USA PATRIOT Act, enacted in 2001 and renewed in 2006. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications.

The USA PATRIOT Act 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 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.

The Federal Bureau of Investigation may send bank regulatory agencies lists of the names of persons suspected of involvement in terrorist activities. We can be requested to search our records for any relationships or transactions with persons on those lists and may be required to report any identified relationships or transactions. Furthermore, OFAC is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. 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. 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.

#### Other Regulatory Matters

We and our subsidiaries and affiliates are subject to numerous examinations by federal and state banking regulators, as well as the SEC, the Financial Industry Regulation Authority (“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 from time to time 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.

In order to remedy certain weaknesses, including the weaknesses cited by the Federal Reserve Board in relation to our capital planning processes and the weaknesses we are working to remedy pursuant to the OCC and FDIC consent orders, and meet

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our significant regulatory and supervisory challenges, we believe we need to make substantial improvements to our processes, systems and controls. See Note 16 “Commitments and Contingencies” to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report. We expect to continue to dedicate significant resources and managerial time and attention and to make significant investments in enhanced processes, systems and controls. This in turn may increase our operational costs and limit our ability to implement aspects of our strategic plan or otherwise pursue certain business opportunities. We also expect to make restitution payments to our banking subsidiaries' customers, which could be significant, arising from certain customer compliance deficiencies and may be required to pay civil money penalties in connection with certain of these deficiencies. We have established reserves in respect of these future payments, but the amounts that we are ultimately obligated to pay could be in excess of our reserves. Moreover, if we are unsuccessful in remedying these weaknesses and meeting the enhanced supervisory requirements and expectations that apply to us and our banking subsidiaries, we could remain subject to existing restrictions or become subject to additional restrictions on our activities, supervisory actions or public enforcement actions, including the payment of civil money penalties.

Employees

As of December 31, 2014, we had approximately 17,700 FTEs, which included the full-time equivalent of our approximately 17,070 full-time employees, 625 part-time employees and approximately 615 positions filled by 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.

CITIZENS FINANCIAL GROUP, INC.  
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 “Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Governance” included in Part II, Item 7 of this report.

The following discussion sets forth some of the more important risk factors that could materially 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 elsewhere 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 strategic plan or achieve our performance targets.

Our strategic plan, which we began to implement in the second half of 2013, involves four principal elements: (a) increasing revenue in both Consumer Banking and Commercial Banking; (b) enhancing cost reduction efforts across the company; (c) leveraging capital actions aimed at better aligning our capital structure with those of regional bank peers; and (d) the beneficial impact of a rising interest rate environment on our asset-sensitive balance sheet. Our future success and the value of our stock will depend, in part, on our ability to effectively implement our strategic plan. There are risks and uncertainties, many of which are not within our control, associated with each element of our plan discussed further below.

In addition, certain of our key initiatives require regulatory approval, which may not be obtained on a timely basis, if at all. Moreover, even if we do obtain required regulatory approval, it may be conditioned on certain organizational changes, such as those discussed below, that could reduce the profitability of those initiatives.

Revenue Generation Component of Strategic Plan, Assumptions and Associated Risks. Our plans to increase revenue involve reallocating resources toward businesses that will further increase and diversify our revenue base, including by prudently growing higher-return earning assets, identifying and capitalizing on more fee income opportunities and selectively expanding our balance sheet through increased loan origination volume principally in mortgage, small business and auto. Our revenue growth plans are based on a number of assumptions, many of which involve factors that are outside our control. Our key assumptions include:

that we will be able to attract and retain the requisite number of skilled and qualified personnel required to increase our loan origination volume in mortgage, business banking, auto, wealth, mid-corporate and specialty verticals. The marketplace for skilled personnel is competitive, which means hiring, training and retaining skilled personnel is costly and challenging and we may not be able to increase the number of our loan professionals sufficiently to achieve our loan origination targets successfully;

that we will be able to grow higher-return earning assets with acceptable risk performance and increase fee income in part by means of increased management discipline, industry focus, expansion of target markets, focus on higher-return yielding assets and increased origination efforts;

that we will be able to successfully identify and purchase high-quality interest-earning assets that perform over time in accordance with our projected models;



that we will be able to fund asset growth by growing deposits with our cost of funds increasing at a rate consistent with our expectations;

that our expansion into specialized industries, as well as our efforts to expand nationally in the mid-corporate space, will not materially alter our risk profile from existing business operations in ways that our existing risk models cannot effectively or accurately model;

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that there will be no material change in competitive dynamics, including as a result of our seeking to increase market share and enter into new markets (as discussed below, we operate in a highly competitive industry and any change in our ability to retain deposits or attract new customers in line with our current expectations would adversely affect our ability to grow our revenue);

that the foot traffic in our branches, on which certain sales and marketing efforts are focused, does not significantly decrease more than expected as a result of technological advances or otherwise; and

that software we have recently licensed and implemented throughout our business, including an automated loan origination platform, will function consistent with our expectations.

If one or more of our assumptions prove incorrect, we may not be able to successfully execute our strategic plan, we may never achieve our indicative performance targets and any shortfall may be material.

**Cost Savings and Efficiency Component of Strategic Plan and Associated Risks.** In order for us to execute our strategic plan successfully, we must continue to pursue a number of cost reduction and efficiency improvement initiatives, including streamlining processes, reducing redundancy and improving cost structures, which we believe will allow us to reduce overall expenses. There may be unanticipated difficulties in implementing our efficiency initiatives, and while we achieved our targeted cost savings for 2014, there can be no assurance that we will fully realize our target expense reductions, or be able to sustain any annual cost savings achieved by our efficiency initiative. Reducing costs may prove difficult in light of our efforts to continue to establish and maintain our stand-alone operational and infrastructural capabilities as a banking institution fully separate from RBS Group, including our rebranding efforts associated with our separation from RBS Group. Reducing our structural costs also may be difficult as a result of our efforts to continue to invest in technology and people in order to make further organizational improvements in risk management and various other policies and procedures in order to comply with increased guidance, new regulations and requirements imposed by our regulators. In addition, any significant unanticipated or unusual charges, provisions or impairments, including as a result of any ongoing legal and regulatory proceedings or industry regulatory changes, would adversely affect our ability to reduce our cost structure in any particular period. If we are unable to reduce our cost structure as we anticipate, we may not be able to successfully execute our strategic plan, we may never achieve our indicative performance targets and any shortfall may be material.

**Reduction of Our Common Equity Tier 1 Ratio.** Our strategic plan requires us to complete capital initiatives that would result in a lower overall CET1 ratio. Because our capital structure is subject to extensive regulatory scrutiny, including under the Federal Reserve Board's CCAR process, and because CET1 is used in calculating risk-based capital ratios, we may not be able to consummate the capital initiatives required to bring our CET1 ratio in line with our expectations. This could prevent us from achieving our ROTCE targets. For more information about risks relating to our ability to obtain the requisite approval from the Federal Reserve Board, see "—Supervisory requirements and expectations on us as a financial holding company and a bank holding company, our need to make improvements and devote resources to various aspects of our controls, processes, policies and procedures, and any regulator-imposed limits on our activities, could limit our ability to implement our strategic plan, expand our business, improve our financial performance and make capital distributions to our stockholders."

**Rising Interest Rate Environment.** Our earnings are dependent to a large extent on our net interest income, which is interest income and fees earned on loans and investments, less interest paid on deposits and other borrowings. Net interest income growth has been challenged by the relatively persistent low interest rate environment, which continued through 2014 and is continuing into 2015. Our strategic plan includes assumptions about rising interest rates in the coming periods. However, interest rates are highly sensitive to numerous factors which are beyond the control of our management, and they have not, in recent periods, increased in line with our expectations. If the current low interest rate environment were to continue or if interest rates do not rise as much or as quickly as we expect, then we may not

be able to achieve our ROTCE or other targets. For further information about our interest rate sensitivity, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Governance and Market Risk” in Part II, Item 7 included elsewhere in this report.

In addition to the four principal elements of our strategic plan, we also anticipate that our ROTCE will be affected by a number of additional factors. We anticipate a benefit to our ROTCE from runoff of our non-core portfolio and existing pay-fixed interest rate swaps, which we expect will be offset by the negative impact on our ROTCE of some deterioration in the credit environment as they return to historical levels and a decline in gains on investments in securities. We do not control many aspects of these factors (or others) and actual results could differ from our expectations materially, which could impair our ability to achieve our strategic ROTCE goals.

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Supervisory requirements and expectations on us as a financial holding company and a bank holding company, our need to make improvements and devote resources to various aspects of our controls, processes, policies and procedures, and any regulator-imposed limits on our activities could limit our ability to implement our strategic plan, expand our business, improve our financial performance and make capital distributions to our stockholders.

As a result of and in addition to new legislation aimed at regulatory reform, such as the Dodd-Frank Act, and the increased capital and liquidity requirements introduced by the U.S. implementation of the Basel III framework (the capital components of which have become effective), the federal banking agencies (the Federal Reserve Board, the OCC and the FDIC), as well as the CFPB, generally are taking a more stringent approach to supervising and regulating financial institutions and financial products and services over which they exercise their respective supervisory authorities. We, our two banking subsidiaries and our products and services are all subject to greater supervisory scrutiny and enhanced supervisory requirements and expectations and face significant challenges in meeting them. We expect to continue to face greater supervisory scrutiny and enhanced supervisory requirements in the foreseeable future.

Our two banking subsidiaries are currently subject to consent orders issued by the OCC and the FDIC in connection with their findings of deceptive marketing and implementation of some of our checking account and funds transfer products and services. Among other things, the consent orders require us to remedy deficiencies and develop stronger compliance controls, policies and procedures. We have made progress and continue to make progress in addressing these requirements, but the consent orders remain in place and we are unable to predict when they may be terminated. CBNA is also making improvements to its compliance management systems, fair lending compliance, risk management, deposit reconciliation practices and overdraft fees in order to address deficiencies in those areas. CBPA is making improvements to address deficiencies in its deposit reconciliation practices, overdraft fees, identity theft add-on products, third-party payment processor activities, oversight of third-party service providers, compliance program, policies, procedures and training, consumer complaints process and anti-money laundering controls. These efforts require us to make investments in additional resources and systems and also require a significant commitment of managerial time and attention.

In March 2014, the OCC communicated its determination that CBNA does not meet the condition—namely, that CBNA must be both well capitalized and well managed, as those terms are defined in applicable regulations, based on certain minimum capital ratios and supervisory ratings, respectively, necessary to own a financial subsidiary. A financial subsidiary is permitted to engage in a broader range of activities, similar to those of a financial holding company, than those permissible for a national bank itself. CBNA has two financial subsidiaries, Citizens Securities, Inc., a registered broker-dealer, and RBS Citizens Insurance Agency, Inc., a dormant entity, although it continues to collect commissions on certain outstanding insurance policies. CBNA has entered into an agreement with the OCC (the “OCC Agreement”) pursuant to which it must develop a remediation plan, which must be submitted to the OCC, setting forth the specific actions it will take to bring itself back into compliance with the condition to own a financial subsidiary and the schedule for achieving that objective. Until CBNA addresses the deficiencies to the OCC’s satisfaction, CBNA will be subject to restrictions on its ability to acquire control of or hold an interest in any new financial subsidiary and to commence new activities in any existing financial subsidiary, without the prior approval of the OCC. The OCC Agreement provides that if CBNA fails to remediate the deficiencies, it may have to divest itself of its financial subsidiaries and comply with any additional limitations or conditions on its conduct as the OCC may impose. CBNA has developed a plan to address the deficiencies and has implemented a comprehensive enterprise-wide program, through which, we believe, many deficiencies have been addressed.

In March 2014, the Federal Reserve Board objected on qualitative grounds to our capital plan submitted as part of the CCAR process. In its public report entitled “Comprehensive Capital Analysis and Review 2014: Assessment Framework and Results,” the Federal Reserve Board cited significant deficiencies in our capital planning processes, including inadequate governance, weak internal controls and deficiencies in our practices for estimating revenues and losses under a stress scenario and for ensuring the appropriateness of loss estimates across our business lines in a specific stress scenario. Although the Federal Reserve Board acknowledged that bank holding companies such as ours

that are new to the CCAR process are subject to different expectations, our weaknesses were considered serious enough to warrant the Federal Reserve Board's objection based on its qualitative assessment of our capital planning process. As a result, we are not permitted to increase our capital distributions above 2013 levels until a new capital plan is approved by the Federal Reserve Board. We submitted a new capital plan on January 5, 2015. We cannot assure you that the Federal Reserve Board will not object to that capital plan or that, even if it does not object to it, our planned capital distributions will not be significantly modified from 2013 levels.

We are also required to make improvements to our overall compliance and operational risk management programs and practices in order to comply with enhanced supervisory requirements and expectations and to address weaknesses in retail credit risk management, liquidity risk management, model risk management, outsourcing and vendor risk management and related oversight and monitoring practices and tools. Our and our banking subsidiaries' consumer compliance program and controls also

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require improvement, particularly with respect to deposit reconciliation processes, fair lending and mortgage servicing. In addition to all of the foregoing, as part of our and our banking subsidiaries' regular examination process, from time to time we and our banking subsidiaries may become, and currently are, subject to prudential restrictions on our activities. The restrictions that apply to CBNA are described above. Similarly, under the Bank Holding Company Act, currently we may not be able to engage in certain categories of new activities or acquire shares or control of other companies other than in connection with internal reorganizations.

In order to remedy these weaknesses and meet these regulatory and supervisory challenges, we need to make substantial improvements to our compliance, risk management and other processes, systems and controls. We expect to continue to dedicate significant resources and managerial time and attention and to make significant investments in enhanced compliance, risk management and other processes, systems and controls. We also expect to make restitution payments to our banking subsidiaries' customers, which could be significant, arising from certain of the consumer compliance deficiencies described above and may be required to pay civil money penalties in connection with certain of these deficiencies. We have established reserves in respect of these future payments, but the amounts that we are ultimately obligated to pay could be in excess of our reserves.

The remediation efforts and other matters described above will increase our operational costs and may limit our ability to implement aspects of our strategic plan or otherwise pursue certain business opportunities. Moreover, if we are unsuccessful in remedying these weaknesses and meeting the enhanced supervisory requirements and expectations that apply to us and our banking subsidiaries, we could remain subject to existing restrictions or become subject to additional restrictions on our activities, informal (nonpublic) or formal (public) supervisory actions or public enforcement actions, including the payment of civil money penalties. Any such actions or restrictions, if and in whatever manner imposed, would likely increase our costs and could 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.

A continuation of the current low interest rate environment or subsequent movements 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. Our net interest income was \$3.3 billion for the year ended December 31, 2014 and \$3.1 billion for the year ended December 31, 2013. Changes in interest rates can have a material effect on many areas of our business, including the following:

Net Interest Income. In recent years, it has been the policy of the Federal Reserve Board and the U.S. Treasury to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of U.S. Treasury and mortgage-backed securities. As a result, yields on securities we have purchased, and market rates on the loans we have originated, have been at levels lower than were available prior to 2008. Consequently, the average yield on our interest-earning assets has decreased during the low interest rate environment. If a low interest rate environment persists, our net interest income may further decrease. This would be the case because our ability to lower our interest expense has been limited at these interest rate levels, while the average yield on our interest-earning assets has continued to decrease. Moreover, as interest rates begin to increase, if our floating rate interest-earning assets do not reprice faster than our interest-bearing liabilities in a rising rate environment, our net interest income could be adversely affected. If our net interest income decreases, this could have an adverse effect on our profitability.

Deposit Costs. As interest rates increase, our net interest margin would narrow if our cost of funding increases without a correlative increase in the interest we earn from loans and investments. Because we rely extensively on deposits to fund our operations, our cost of funding would increase if there is an increase in the interest rate we are required to pay our customers to retain their deposits. This could occur, for instance, if we are faced with competitive pressures to increase rates on deposits. In addition, if the interest rates we are required to pay for other sources of funding (for example, in the interbank or capital markets) increases, our cost of funding would increase. If any of the foregoing risks occurs, our net interest margin could narrow. Although our assets currently reprice faster than our liabilities

(which would result in a benefit to net interest income as interest rates rise), the benefit from rising rates could be less than we assume, which may have an adverse effect on our profitability.

**Loan Volume and Delinquency.** Increases in interest rates may decrease customer demand for loans as the higher cost of obtaining credit may deter customers from seeking new loans. Further, higher interest rates might also lead to an increased number of delinquent loans and defaults, which would affect the value of our loans.

**Value of Our Mortgage Servicing Rights.** As a residential mortgage servicer, we have a portfolio of mortgage servicing rights (“MSRs”). MSRs are subject to interest rate risk in that their fair value will fluctuate as a result of changes in the interest rate environment. When interest rates fall, borrowers are generally more likely to prepay their mortgage loans by refinancing them

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at a lower rate. As the likelihood of prepayment increases, the fair value of MSR's can decrease. A decrease in the fair value below the carrying value of MSR's will reduce earnings in the period in which the decrease occurs.

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 Federal Reserve Board, 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 elsewhere in this report, changes in interest rates still may have an adverse effect on our profitability.

If our assumptions regarding borrower 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 key cornerstone of our strategic plan involves the hiring of a large number 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, competitively 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.

Governmental scrutiny with respect to matters relating to compensation and other business practices in the financial services industry has increased dramatically in the past several years and has resulted in more aggressive and intense regulatory supervision and the application and enforcement of more stringent standards. For example, in June 2010, the Federal Reserve Board and other federal banking regulators jointly issued comprehensive final guidance designed to ensure that incentive compensation policies do not undermine the safety and soundness of banking organizations by encouraging employees to take imprudent risks. The recent financial crisis and the current political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators and elected officials. Future legislation or regulation or government views on compensation may result in us altering compensation practices in ways that could adversely affect our ability to attract and retain talented employees.

In addition to complying with U.S. laws relating to compensation, we are also required to comply with certain United Kingdom ("UK") and European Union ("EU") remuneration requirements for so long as the UK Prudential Regulation Authority ("PRA") considers RBS Group to control us. As a result of the implementation of the EU Capital Requirements Directive IV ("CRD IV"), certain of our most senior employees, including our CEO, may not receive variable compensation in excess of 100% of fixed compensation (up to 200% with shareholder approval) starting with performance year 2014. Because shareholder approval was not sought by RBS, a 100% limitation applied for 2014 and will continue to apply until CRD IV no longer applies to us. We intend to maintain competitive total compensation levels for affected employees, although it is possible that the structure of our compensation packages may not be considered in line with our peers.

Our ability to meet our obligations, and the cost of funds to do so, depend on our ability to access sources of liquidity and the particular sources available to us.

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 an



over-reliance on a particular source of funding (including, for example, short-term and overnight funding), 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 a loss of confidence by customers in us or the banking sector generally, increasing competitive pressures for retail or corporate customer deposits, changes in interest rates and returns on other investment classes, which could result in a significant outflow of deposits

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within a short period of time. To the extent that there is heavy 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.

In addition, volatility in the interbank funding market can negatively affect our ability to fund our operations. For example, funding in the interbank markets, a traditional source of unsecured short-term funding, was severely disrupted throughout the global economic and financial crisis. If market disruption or significant volatility returns to the interbank or wholesale funding market, our ability to access liquidity in these funding markets could be materially impaired. Additionally, other factors outside our control, such as an operational problem that affects third parties, could impair our ability to access market liquidity or create an unforeseen outflow of cash or deposits. Our inability to access adequate funding, whether from bank deposits, the interbank funding market or the broader capital markets, would constrain our ability to make new loans, to meet our existing lending commitments and ultimately jeopardize our overall liquidity and capitalization.

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, reflected in 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, including the credit ratings of RBS or other members of RBS Group, 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 the financial strength of, and other factors relating to, RBS and RBS Group, as well as 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 in the capital markets certain of our securities, including long-term debt, engage in certain longer-term and derivatives transactions and retain our customers, particularly corporate customers who need 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.

Any downgrade in the credit rating of RBS or other members of RBS Group may negatively impact the rating agencies' evaluation of us and our business which could ultimately result in a downgrade of our credit ratings. The credit ratings of RBS and other members of RBS Group, along with a number of other European financial institutions, were downgraded during the course of the last four years as part of the rating agencies' rating methodology changes, review of systemic support assumptions incorporated into bank ratings and the likelihood, in the case of banks located in the United Kingdom, that the UK government is more likely in the future to make greater use of its regulatory tools to allow burden sharing among bank creditors. Rating agencies continue to evaluate the rating methodologies applicable to European financial institutions, including RBS and other members of RBS Group, and any change in such methodologies could ultimately affect our credit ratings. Separately, adverse changes in the credit ratings of the United Kingdom could adversely affect the credit ratings of RBS or other members of RBS Group which may ultimately have an adverse impact on our credit ratings.

On November 29, 2011, Standard & Poor's lowered its long-term debt rating of RBS to A- and, at the same time, lowered our long-term debt rating to A. On June 22, 2012, Moody's downgraded the long-term bank deposit rating of our banking subsidiaries to A3 following its downgrade of RBS on June 21, 2012. On November 11, 2013, Standard & Poor's lowered its ratings on 20 of CBNA's letter of credit-backed U.S. public finance issues. This action followed Standard & Poor's' November 7, 2013 downgrade of the long-term debt of RBS to BBB+ and its simultaneous lowering of our long-term debt rating to BBB+. On November 3, 2013, Fitch downgraded our long-term debt rating to BBB+ following RBS's announcement of its intention to fully divest us by 2016. On August 21, 2014, Fitch affirmed our long-term debt rating of BBB+, and on December 3, 2014, Fitch rated CBNA's subordinated debt as BBB. Although Moody's confirmed the long-term bank deposit rating of our banking subsidiaries on March 13, 2014, its ratings outlook is negative. On May 7, 2014, Standard & Poor's lowered our stand-alone credit profile to A- from A. On February 3, 2015, Standard & Poor's lowered its long-term debt rating of RBS from BBB+ to BBB- and lowered its short-term

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debt rating of RBS from A-2 to A-3. At the same time, Standard & Poor's affirmed its issuer ratings of both CFG (BBB+/A-2) and CBNA (A-/A-2), while its ratings outlook for both entities remained negative. These ratings could be further downgraded as a result of a number of factors, such as our financial strength and economic conditions generally. Under current rating methodologies, the ratings could also be further downgraded due to RBS's continued ownership interest in us, reflecting the potential adverse effects of challenges faced by RBS Group, including uncertainty around political developments in the United Kingdom and Europe, or in connection with our separation from RBS Group, if the rating agencies perceive that we would not benefit from the support of RBS Group. Any further reductions in our credit ratings or those of our banking subsidiaries could adversely affect our access to liquidity, our competitive position, increase our funding costs or otherwise have a material adverse effect on our business, financial condition and results of operations.

We are subject to certain risks related to originating and selling mortgages and we may be required to repurchase mortgage loans or indemnify mortgage loan purchasers, which could adversely impact our business, financial condition and results of operations.

We originate and often sell mortgage loans. When we sell mortgage loans, whether as whole loans or pursuant to a securitization, we are required to make customary representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. Our loan sale agreements require us to repurchase or substitute mortgage loans in the event of certain breaches of these representations or warranties. In addition, we may be required to repurchase mortgage loans as a result of borrower fraud or in the event of early payment default of the borrower on a mortgage loan. Likewise, we are required to repurchase or substitute mortgage loans if we breach certain representations or warranties in connection with our securitizations, whether or not we were the originator of the loan. While in many cases we may have a remedy available against certain parties, often these may not be as broad as the remedies available to a purchaser of mortgage loans against us, and we face the further risk that such parties may not have the financial capacity to satisfy remedies that may be available to us. Therefore, if a purchaser enforces its remedies against us, we may not be able to recover our losses from third parties. We have received repurchase and indemnity demands from purchasers in the past, which have resulted in an increase in the amount of losses for repurchases. In particular, between the start of 2009 and December 31, 2014, we received approximately \$158 million in repurchase demands and \$99 million in indemnification payment requests in respect of loans originated, for the most part, since 2003. Of those claims presented, \$88 million was paid to repurchase residential mortgages and \$33 million was incurred for indemnification costs to make investors whole. We repurchased mortgage loans totaling \$25 million and \$35 million for the years ended December 31, 2014 and 2013, respectively. We incurred indemnification costs of \$8 million and \$12 million for the years ended December 31, 2014 and 2013, respectively. We responded to subpoenas issued by the Office of the Inspector General for the Federal Housing Authority Agency in December 2013 which requested information about loans sold to The Federal National Mortgage Association and The Federal Home Loan Mortgage Corporation from 2003 to 2011. We cannot estimate what the future level of repurchase demands will be or our ultimate exposure, and cannot give any assurance that the historical experience will or will not continue in the future. The volume of repurchase demands may increase, which could have a material adverse effect on our business, financial condition and results of operations.

We face risks as a servicer of loans. We may be terminated as a servicer or master servicer, be required to repurchase a mortgage loan or reimburse investors for credit losses on a mortgage loan, or incur costs, liabilities, fines and other sanctions if we fail to satisfy our servicing obligations, including our obligations with respect to mortgage loan foreclosure actions.

We act as servicer or master servicer for mortgage loans included in securitizations and for unsecuritized mortgage loans owned by investors. As a servicer or master servicer for those loans, we have certain contractual obligations to the securitization trusts, investors or other third parties, including, in our capacity as a servicer, foreclosing on defaulted mortgage loans or, to the extent consistent with the applicable securitization or other investor agreement, considering alternatives to foreclosure (such as loan modifications, short sales and deed-in-lieu of foreclosures), and, in our capacity as a master servicer, overseeing the servicing of mortgage loans by the servicer. Generally, our

servicing obligations as a servicer or master servicer described above are set by contract, for which we receive a contractual fee. However, the costs to perform contracted-for services have been increasing, which reduces our profitability. In addition, we serve as a servicer for government sponsored enterprises (“GSEs”) under servicing guides. The GSEs can amend their servicing guides, which can increase the scope or costs of the services we are required to perform without any corresponding increase in our servicing fee. Further, the CFPB has issued two regulations that amended the mortgage servicing provisions of Regulation Z and Regulation X, which became effective on January 10, 2014 and which may further increase the scope and costs of services we are required to perform, including as it relates to servicing loans that we own. In addition, there has been a significant increase in state laws that impose additional servicing requirements that increase the scope and cost of our servicing obligations.

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If we commit a material breach of our obligations as servicer or master servicer, we may be subject to termination if the breach is not cured within a specified period of time following notice, which can generally be given by the securitization trustee or a specified percentage of security holders, causing us to lose servicing income. In addition, we may be required to indemnify the securitization trustee against losses from any failure by us, as a servicer or master servicer, to perform our servicing obligations or any act or omission on our part that involves willful misfeasance, bad faith or gross negligence. For certain investors and/or certain transactions, we may be contractually obligated to repurchase a mortgage loan or reimburse the investor for credit losses incurred on the loan as a remedy for servicing errors with respect to the loan. If we experience increased repurchase obligations because of claims that we did not satisfy our obligations as a servicer or master servicer, or increased loss severity on such repurchases, we may have to materially increase our repurchase reserve.

We rely on the mortgage secondary market and GSEs for some of our liquidity.

We sell some of the mortgage loans we originate to reduce our credit risk and to provide funding for additional loans.

We rely on GSEs to purchase loans that meet their conforming loan requirements. Strategically, we may originate and hold nonconforming loans on-balance sheet for investment purposes, or from time to time, we will rely on other capital markets investors to purchase nonconforming loans (i.e., loans that do not meet GSE requirements). A viable, consistent outlet for nonconforming loans continues to be a challenge that has impacted the liquidity in this space.

Retaining nonconforming loans on balance sheet is a trend that continues. When we retain a loan not only do we keep the credit risk of the loan but we also do not receive any sale proceeds that could be used to generate new loans.

However, we receive net interest margin as our income stream as loan payments are received on a monthly basis in lieu of sale proceeds. Depending on balance sheet capacity, a persistent lack of liquidity could limit our ability to fund and thus originate new mortgage loans, reducing the fees we earn from originating and servicing loans. In addition, we cannot provide assurance that GSEs will not materially limit their purchases of conforming loans due to capital constraints or change their criteria for conforming loans (e.g., maximum loan amount or borrower eligibility). We note that proposals have been presented to reform the housing finance market in the United States, including the role of the GSEs in the housing finance market. The extent and timing of any such regulatory reform regarding the housing finance market and the GSEs, as well as any effect on our business and financial results, are uncertain.

We are subject to increased risk of credit losses associated with HELOCs originated prior to the global financial and economic crisis.

During the years prior to the global financial and economic crisis, financial institutions, including us, originated a significant number of HELOCs. The terms of HELOCs generally provided for the deferral of borrowers' obligations to begin to repay principal until a specified future date. As of December 31, 2014, approximately 29% of our \$16.0 billion HELOC portfolio, or \$4.6 billion in drawn balances, and \$3.8 billion in undrawn balances, were subject to a payment reset or balloon payment between January 1, 2015 and December 31, 2017, including \$245 million in balloon balances where full payment is due at the end of a ten-year interest-only draw period. Although we launched a program in September 2013 to manage the exposure by providing heightened outreach to borrowers, there remains a risk of increased credit losses as borrowers become obligated to make principal and interest payments. For further information regarding the expected HELOC payment shock, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Business — HELOC Payment Shock" in Part II, Item 7, included elsewhere in this report.

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.

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Our framework for managing risks may not be effective in mitigating risk and loss and our use of models presents risks to our risk management framework.

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 a strategic initiative 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 elsewhere 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.

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. For example, we experienced certain technical issues relating to our market risk measurement processes when we began incorporating trade level detail for foreign exchange contracts in 2013. Despite rigorous pilot testing of our processes, during the initial phase of implementation our processes failed to incorporate certain positions we maintained to offset client exposure, which led to an immaterial overstatement of foreign exchange currency rate risk positions during 2013 compared to our position at year end. We have adjusted our processes and have experienced no further issues. 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.

The preparation of our financial statements requires the use of estimates that may vary from actual results.

Particularly, various factors may cause our allowance for loan and lease losses to increase.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make significant estimates that affect the financial statements. Our most critical accounting estimate is the allowance for loan and lease losses. The allowance for loan



and lease losses is a reserve established through a provision for loan and lease losses charged to expense and represents our estimate of losses within the existing portfolio of loans. The allowance is necessary to reserve for estimated loan and lease losses and risks inherent in the loan portfolio. The level of the allowance 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 allowance for loan and lease losses 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

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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 allowance for loan and lease losses. In addition, bank regulatory agencies periodically review our allowance for loan and lease losses and may require an increase in the allowance for loan and lease losses 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 allowance for loan and lease losses—that is, if the allowance for loan and lease losses is inadequate—we will need additional loan and lease loss provisions to increase the allowance for loan and lease losses. 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.

We could also sustain credit losses that are significantly higher than the amount of our allowance for loan and lease losses, and therefore have an adverse impact on earnings. Higher credit losses could arise for a variety of reasons. A severe downturn in the economy would generate increased charge-offs and a need for higher reserves. In particular, a severe decrease in housing prices or spike in unemployment would cause higher losses and a larger allowance for loan and lease losses, particularly in the residential real estate secured portfolios. Within the residential real estate portfolios, we have HELOCs for which the end of draw is happening over the next two years. If there is a spike in interest rates, these customers will not only have to deal with an increased or first time principal payment but also an increase in interest payments, potentially leading to larger losses and allowance for loan and lease losses. For more information about risks related to HELOCs, see “—We are subject to increased risk of credit losses associated with HELOCs originated prior to the global financial and economic crisis” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Business — HELOC Payment Shock” in Part II, Item 7, included elsewhere in this report. While we believe that our allowance for loan and lease losses was adequate on December 31, 2014, there is no assurance that it will be sufficient to cover all incurred loan and lease credit losses, particularly if economic conditions worsen. In the event of deterioration in economic conditions, we may be required to increase reserves in future periods, which would reduce our earnings.

The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgments and estimates that may change over time or may ultimately not turn out to be accurate. Under GAAP, we recognize at fair value: (i) financial instruments classified as held for trading or designated at fair value through profit or loss; (ii) financial assets classified as available for sale (“AFS”); and (iii) derivatives. Generally, to establish the fair value of these instruments, we rely on quoted market prices. If such market prices are not available, we rely on internal valuation models that utilize observable market data and/or independent third-party pricing. For example, observable market data may not be available for certain individual financial instruments or classes of financial instruments, such as venture capital investments. In such circumstances, we utilize complex internal valuation models to establish fair value; these models require us to make assumptions, judgments and estimates regarding matters that are inherently uncertain. When practical, we supplement internal models using independent price verification in order to lessen the uncertainties in our models. These assumptions, judgments and estimates are periodically updated to reflect changing facts, trends and market conditions. The resulting change in the fair values of the financial instruments may have a material adverse effect on our earnings and financial condition. 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; 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.

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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 use 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 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, our need to make improvements and devote resources to various aspects of our controls, processes, policies and procedures, and any regulator-imposed limits on our activities, could limit our ability to implement our strategic plan, expand our business, improve our financial performance and make capital distributions to our stockholders.”

Cyber-attacks, distributed denial of service attacks and other cyber-security matters, if successful, could adversely affect how we conduct our business.

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.

Recently, there has been a series of distributed denial of service attacks on financial services companies, including us. Distributed denial of service attacks are designed to saturate the targeted online network with excessive amounts of network traffic, resulting in slow response times, or in some cases, causing the site to be temporarily unavailable. Generally, these attacks are conducted to interrupt or suspend a company’s access to Internet service. The attacks can adversely affect the performance of a company’s website and in some instances prevent customers from accessing a company’s website. We are implementing certain technology protections such as Customer Profiling and Step-Up Authentication to be in compliance with the Federal Financial Institutions Examination Council (“FFIEC”) Authentication in Internet Banking Environment (“AIBE”) guidelines. However, potential cyber threats that include hacking and other attempts to breach information technology security controls are rapidly evolving and we may not be able to anticipate or prevent all such attacks. In the event that a cyber-attack is successful, our business, financial condition or results of operations may be adversely affected.

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 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.

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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) certain components and services relating to our online banking system rely on data communications networks operated by unaffiliated third parties, (ii) many of our applications are hosted or maintained by third parties, including our Commercial Loan System, which is hosted and maintained by Automated Financial Systems, Inc., and (iii) our core deposits system is maintained by Fidelity Information Services, Inc. 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. 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, including RBS Group.

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.

Negative publicity could result, for example, from an allegation or determination that we have failed to comply with regulatory or legislative requirements, from failure in business continuity or performance of our information technology systems, loss of customer data or confidential information, fraudulent activities, unsatisfactory service and support levels or insufficient transparency or disclosure of information. Negative publicity adversely affecting our brands or reputation could also result from misconduct or malpractice by partners or other third parties with whom we have relationships. In particular, because of our relationship with RBS Group, negative publicity about RBS Group could have a negative effect on us. Adverse publicity, governmental scrutiny, any pending future investigations by regulators or law enforcement agencies involving us, any of our affiliates or RBS Group can also have a negative impact on our reputation and business, which could adversely affect our results of operations.

Any damage to our brands or reputation could cause existing customers or other third parties to terminate their business relationships with us and potential customers or other third parties to be reluctant to do business with us. Such damage to our brands or reputation could cause disproportionate damage to our business, even if the negative publicity is factually inaccurate or unfounded. Furthermore, negative publicity could result in greater regulatory scrutiny and influence market or rating agencies' perceptions of us, which could make it more difficult for us to maintain our credit rating. The occurrence of any of these events could have an adverse effect on our business, financial condition and results of operations.

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 Massachusetts unusable. The distance between the data center locations (approximately 45 miles) provides diversity in resources, but not sufficient diversity in the event of a catastrophe as described above. Although we are building a new, out-of-region backup data center in North Carolina, scheduled for completion in 2015, we do not currently have a backup data center outside New England.

Our principal communications and information systems are housed in the Rhode Island primary data center and our operations are concentrated in the New England, Mid-Atlantic and Midwest regions. If a natural disaster, severe

weather, power outage or other event were to occur in New England or if we were subject to a terrorist attack prior to the opening of the North Carolina recovery data center that prevented us from using all or a significant portion of our communications and information systems, damaged critical infrastructure or otherwise disrupted our operations, it may be difficult or, in certain cases, impossible for us to continue our business for a substantial period of time. Although we have implemented disaster recovery and business continuity plans, these plans may prove inadequate in the event of a disaster or similar event that seriously compromises our information systems. We may incur substantial expenses as a result of any limitations relating to our disaster recovery and business

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continuity plans, which, particularly when taken together with the geographic concentration of our operations, could have a material adverse effect on our business.

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

Our net deferred tax assets (“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, 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, 2014 (except for \$157 million related to state DTAs 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, 2014, we maintained an investment of approximately \$399 million in entities for which we receive allocations of tax credits, which we utilize to offset our taxable income. We accrued \$26 million and \$14 million in credits for the years ended December 31, 2014 and December 31, 2013, respectively. As of December 31, 2014, 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.

We may have exposure to greater than anticipated tax liabilities.

The tax laws applicable to our business activities, including the laws of the United States and other jurisdictions, are subject to interpretation. The taxing authorities in the jurisdictions in which we operate may challenge our tax positions, which could increase our effective tax rate and harm our financial position and results of operations. In addition, our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, or by changes in tax laws, regulations, or accounting principles. We are subject to regular review and audit by U.S. federal and state tax authorities. Any adverse outcome of such a review or audit could have a negative effect on our financial position and results of operations. In addition, the determination of our provision for income taxes and other tax liabilities requires significant judgment by management. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.

We are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. As a public company, we are currently subject to the requirements of the Sarbanes-Oxley Act, and as a U.S. bank holding company, we are also subject to the FDIC Part 363 Annual Report rules, which incorporate certain items from the Sarbanes-Oxley Act Section 404 into the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) requirements. In addition, beginning with our second annual report on Form 10-K, we will be required to furnish a report by management on the effectiveness of our internal control over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act. Our independent registered public accounting firm is required to express an opinion as to the effectiveness of our internal control over financial reporting beginning with our second annual report on Form 10-K. The process of designing, implementing and testing the internal control over financial reporting required to comply with this obligation is time-consuming, costly and complicated. If we identify material



weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner or to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to civil lawsuits filed by investors or

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investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources.

We depend on the accuracy and completeness of information about clients and counterparties.

In deciding whether to extend credit or enter into other transactions with clients and counterparties, we rely on information furnished by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. If any of such information is incorrect, then the creditworthiness of our clients and counterparties may be misrepresented, which would increase our credit risk and expose us to possible write-downs and losses.

We may not be able to successfully manage our intellectual property and may be subject to infringement claims.

We rely on a combination of owned and licensed trademarks, service marks, trade names, logos and other intellectual property rights. Third parties may challenge, invalidate, infringe or misappropriate our intellectual property, or such intellectual property may not be sufficient to provide us with competitive advantages, which could result in costly redesign efforts, discontinuance of certain services or other competitive harm. For example, words contained in our trademarks and trade names (including the word “Citizens”) are also found in the trade names of a significant number of third parties, including other banks. This has resulted in, and may in the future result in, challenges to our ability to use our trademarks and trade names in particular geographical areas or lines of business. Such challenges could impede our future expansion into new geographic areas or lines of business and could limit our ability to realize the full value of our trademarks and trade names. We may have to litigate to enforce or determine the scope and enforceability of our intellectual property rights, which is expensive, could cause a diversion of resources and may not prove successful. Existing use by others of trademarks and trade names that are similar to ours could limit our ability to challenge third parties when their use of such marks or names may cause consumer confusion, negatively affect consumers’ perception of our brand and products or dilute our brand identity. In addition, certain aspects of our business and our services rely on technologies and intellectual property licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties on reasonable terms or at all. The loss or diminution of our intellectual property protection or the inability to obtain third party intellectual property could harm our business and ability to compete.

We may also be subject to costly litigation in the event our services infringe upon or otherwise violate a third party’s proprietary rights. Third parties may have, or may eventually be granted, intellectual property rights, including trademarks, that could be infringed by our services or other aspects of our business. Third parties have made, and may make, claims of infringement against us with respect to our services or business. As we continue rebranding CFG and our banking subsidiaries and expand our business, the likelihood of receiving third party challenges or claims of infringement related to our intellectual property may increase. Any claim from third parties may result in a limitation on our ability to use the intellectual property subject to such claims. Even if we believe that intellectual property related claims are without merit, defending against such claims is time consuming and expensive and could result in the diversion of the time and attention of our management and employees. Claims of intellectual property infringement also might require us to redesign affected services, enter into costly settlement or license agreements, pay costly damage awards, or face a temporary or permanent injunction prohibiting us from marketing or selling certain of our services. Any intellectual property related dispute or litigation could have a material adverse effect on our business, financial condition and results of operations.

#### Risks Related to Our Relationship with and Separation from RBS Group

RBS is our controlling stockholder and its interests may conflict with ours or yours in the future.

As a result of being our controlling stockholder, RBS Group has significant power to control our affairs and policies including with respect to the election of directors (and, through the election of directors, the appointment of management), the entering into of mergers, sales of substantially all of our assets and other extraordinary transactions. In particular, under the separation and shareholder agreement that we entered into with RBS in connection with our initial public offering (the “Separation Agreement”), for so long as RBS maintains beneficial ownership of our

outstanding common stock in excess of certain thresholds, we will be required to obtain the consent of RBS to complete certain significant transactions, including our merger or consolidation, entrance into joint ventures in excess of certain thresholds or similar corporate transactions, issuance of common stock (other than pursuant to our equity incentive plans), issuance or the guarantee of indebtedness in excess of certain thresholds, the termination or appointment of a replacement of our Chief Executive Officer, Chief Financial Officer or Chief Risk Officer and certain other significant transactions. The interests of RBS Group may not align with our or your interests and we may not be able to manage our business in a manner that is in your best interests, which could cause the price of our stock to decline.

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As of December 31, 2014, RBS was 79.1% owned by the UK government and its interests may conflict with ours or yours in the future.

Following placing and open offers in December 2008 and in April 2009, Her Majesty's Treasury ("HM Treasury") owned approximately 70.3% of the enlarged ordinary share capital of RBS. In December 2009, RBS issued a further £25.5 billion of new capital to HM Treasury. This new capital took the form of B shares, which do not generally carry voting rights at general meetings of ordinary stockholders but are convertible into ordinary shares. Following the issuance of the B shares, HM Treasury's holding of ordinary shares of the company remained at 70.3%, although its economic interest rose to 84.4%. As of December 31, 2014, HM Treasury held 62.3% of the voting rights in RBS and had an economic interest of 79.1%.

HM Treasury's stockholder relationship with RBS is managed on its behalf by UK Financial Investments Limited ("UKFI") and, although HM Treasury has indicated that it intends to respect the commercial decisions of RBS and that RBS will continue to have its own independent board of directors and management team determining its own strategy, should its current intentions change, HM Treasury's position as a majority stockholder (and UKFI's position as manager of this stockholding) means that HM Treasury or UKFI may be able to exercise a significant degree of influence over RBS. The manner in which HM Treasury or UKFI exercises HM Treasury's rights as majority stockholder could give rise to conflict between the interests of HM Treasury and the interests of our stockholders, and RBS may make decisions impacting our operations and the value of our common stock based on UK policy imperatives rather than traditional stockholder economic considerations. We cannot accurately predict whether any restrictions and limitations imposed on RBS on account of HM Treasury's ownership position, or the implementation of RBS's restructuring plan agreed to with HM Treasury, will have a negative effect on our businesses and financial flexibility or result in conflicts between the interests of RBS and our interests. In addition, it is difficult for us to predict whether any changes to, or termination of, HM Treasury's current relationship with RBS will have any effect on our business. We also note that we cannot predict the possible effect of RBS not satisfying its commitment to divest CFG as agreed with HM Treasury, for instance, by having a remaining ownership interest in CFG and its subsidiaries beyond any deadline agreed with HM Treasury.

RBS Group and its UK bank subsidiaries are subject to the provisions of the UK Banking Act 2009, as amended by the UK Financial Services (Banking Reform) Act 2013, which includes special resolution powers including nationalization and bail-in.

Under the Banking Act 2009, substantial powers have been granted to UK banking regulators as part of a special resolution regime. These powers enable such regulators to deal with and stabilize certain deposit-taking UK incorporated institutions that are failing, or are likely to fail, to satisfy the "FSMA threshold conditions" (within the meaning of section 41 of the Financial Services and Markets Act 2000 ("FSMA"), which are the conditions that a relevant entity must satisfy in order to obtain its authorization to perform regulated activities). The special resolution regime consists of three stabilization options: (i) transfer of all or part of the business of the relevant entity and/or the securities of the relevant entity to a private sector purchaser, (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" wholly owned by the Bank of England and (iii) temporary public ownership (nationalization) of the relevant entity. If the UK regulators determine that RBS Group has failed, or is likely to fail, to satisfy the FSMA threshold conditions, then HM Treasury could decide to take RBS Group into temporary public ownership pursuant to the powers granted under the Banking Act 2009, and it may then take various actions in relation to any securities without the consent of holders of the securities. In each case, the UK banking regulators would have the authority to modify contractual arrangements of RBS Group and disapply or modify laws (with possible retrospective effect) to enable their powers under UK law to be used effectively.

Among the changes introduced by the Financial Services (Banking Reform) Act 2013, the Banking Act 2009 was amended to insert a bail-in option as part of the powers of the UK regulators. This option will come into force on such date as shall be stipulated by HM Treasury (HM Treasury has applied the bail-in provisions from January 1, 2015, which is ahead of the deadline of January 1, 2016 that is set out in the European Bank Recovery and Resolution Directive ("BRRD")). The bail-in option will be introduced as an additional power available to the Bank of England to

enable it to recapitalize a failed institution by allocating losses first to its shareholders and then to eligible unsecured creditors in a manner that seeks to respect the hierarchy of claims in liquidation. The bail-in option includes the power to cancel a liability, to modify the form of a liability (including the power to convert a liability from one form to another) or to provide that a contract under which the institution has a liability is to have effect as if a specified right had been exercised under it, each for the purposes of reducing, deferring or canceling the liabilities of the bank under resolution, as well as to transfer a liability. The Financial Services (Banking Reform) Act 2013 is consistent with the range of tools that European Member States will be required to make available to their resolution authorities under the BRRD, although some amendments are expected to the current UK bail-in provisions to ensure that they are fully compliant with the requirements of the BRRD.

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If the UK regulators were to take such stabilization actions with respect to RBS Group due to a failure, or likely failure, by RBS Group to satisfy the FSMA threshold conditions, it could result in the creation, modification or canceling of certain of our contractual arrangements that we entered into with RBS Group in connection with the completion of our initial public offering, including the Transitional Services Agreement and Separation Agreement. In addition, the UK regulators could seek to impose additional obligations on us, including the provision of services to third parties who may purchase some or all of RBS Group's assets. The UK regulators could also materially modify RBS Group's restructuring efforts, including the acceleration of its disclosed intention to sell its remaining shares of our common stock. Any of these actions could have a material adverse effect on our business, contractual obligations and the value of our common stock.

Regulatory proceedings to which the RBS Group is subject could adversely affect our business, prospects, financial condition or results of operations.

RBS Group is a banking and financial services group that is from time to time subject to reviews, investigations and proceedings (both formal and informal) by governmental agencies and self-regulatory organizations in multiple jurisdictions. As a consolidated subsidiary of RBS, regulatory actions against other members of RBS Group that result in adverse judgments, settlements, fines, penalties, injunctions or other remedial action may materially impact our business even where we neither participated in nor contributed to the underlying conduct giving rise to the regulatory action. For example, RBS has disclosed that it is in discussions with various governmental and regulatory authorities, including the Criminal Division of the U.S. Department of Justice, regarding their investigations of RBS Group's foreign exchange trading and sales activities. Although none of the alleged underlying conduct that is the subject of these investigations involved us, we could be subject to a number of adverse consequences in connection with RBS' resolution of these investigations, including but not limited to potential impacts on our broker dealer, capital markets, investment advisory and trustee businesses. In addition, any of our businesses could be impacted to the extent that our reputation is adversely affected by a finding of improper conduct by RBS and/or its affiliates other than us. Whether one or more of these consequences is imposed upon us will depend on the decisions of our regulators who, in most cases, have discretion under applicable regulation whether to apply, or in the case of automatic consequences, whether to suspend or hold in abeyance the imposition of, these potential consequences. We believe that, because we were not involved in the alleged conduct at issue, there is a reasonable basis for these consequences not to be imposed on us. However, the application of these consequences is at the discretion of our regulators and if such consequences were imposed, our business, prospects, financial condition or results of operations may be adversely affected. In addition, if RBS affiliates with whom we do business as swaps and other transactional counterparties, were to lose their ability to engage in such businesses, we could incur costs associated with moving our business to other, non-group counterparties.

Conflicts of interest and disputes may arise between RBS Group and us that could be resolved in a manner unfavorable to us.

Questions relating to conflicts of interest and actual disputes may arise between RBS Group and us in a number of areas relating to our past and ongoing relationships. Areas in which conflicts of interest or disputes between RBS Group and us could arise include, but are not limited to, the following:

Competing business activities. RBS Group is a large banking and financial services group principally engaged in the business of providing banking and financial services. In the ordinary course of its business activities, RBS Group may engage in activities where their interests conflict with our interests or those of our stockholders. Our amended and restated certificate of incorporation provides that, to the fullest extent permitted by law, none of RBS Group or any of its affiliates will have any duty to refrain from engaging, directly or indirectly, in the same business activities or similar business activities or lines of business in which we operate. RBS Group also may pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. As a result, our future competitive position and growth potential could be adversely affected.

Cross officerships, directorships and stock ownership. The ownership interests of our directors or executive officers in the common stock of RBS or service as a director or officer of both RBS and us could create, or appear to create, conflicts of interest when directors and executive officers are faced with decisions that could have different implications for the two companies. For example, these decisions could relate to (i) the nature, quality and cost of services rendered to us by RBS Group, (ii) disagreement over the desirability of a potential business or acquisition opportunity or business plans, (iii) employee retention or recruiting or (iv) our dividend policy.

Separation Agreement. We entered into a Separation Agreement immediately prior to the completion of our initial public offering that governs the relationship between RBS Group and us. Following our initial public offering, the Separation Agreement provides RBS Group with certain governance rights over our business, as well as obligates us

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to comply with certain covenants including certain information rights, access privileges and confidentiality matters. Disagreements regarding the rights and obligations of RBS Group or us under the Separation Agreement could create conflicts of interest for certain of our directors and officers, as well as actual disputes that may be resolved in a manner unfavorable to us.

**Transitional Services Agreement.** We entered into a Transitional Services Agreement with RBS Group for the continued provision of certain services by RBS Group to us (including specified information technology, operations, compliance, business continuity, legal, human resources, back office and web services) and by us to RBS Group. The services that are to be provided under the Transitional Services Agreement generally will continue to be provided until December 31, 2016, although certain services may have an earlier termination date or be terminated prior to that time. Interruptions to or problems with services provided under the Transitional Services Agreement could result in conflicts between us and RBS Group that increase our costs both for the processing of business and the potential remediation of disputes.

**Commercial Matters.** In addition to the agreements that we entered into as part of our separation from RBS Group, we have and expect to continue certain of our commercial relationships with RBS Group for which we intend to continue or enter into one or more commercial matters agreements. The principal commercial activities to be covered by such agreements include certain swap agreements and foreign exchange risk contracts with RBS Group for the purpose of reducing our exposure to interest rate fluctuations or to meet the financing needs of our customers, as well as commercial and referral arrangements related to transaction services, debt capital markets transactions, underwriting of loan syndications, commercial mortgage securitization transactions, mortgage servicing, asset finance and loan syndications and corporate credit card services. Despite our current expectation, there is no guarantee that RBS Group will continue to provide such commercial services to us or that the prices at which they are willing to provide such services will remain consistent with historical periods. If RBS Group were to terminate any of these arrangements, our financial results may be adversely affected. Moreover, disagreements may arise between us and RBS Group regarding the provision or quality of any such services rendered, which may materially adversely affect this portion of our business.

**Business opportunities.** Our directors nominated by RBS and RBS Group may have or make investments in other companies that may compete with us. Our Amended and Restated Certificate of Incorporation provides that, to the fullest extent permitted by law, none of RBS or any of its affiliates will have any duty to refrain from (i) engaging in a corporate opportunity in the same or similar lines of business in which we or our affiliates now engage or propose to engage or (ii) otherwise competing with us or our affiliates. As a result of these charter provisions, our future competitive position and growth potential could be adversely affected.

Our separation from RBS Group could adversely affect our business and profitability due to RBS Group's recognizable brand and reputation.

Prior to our initial public offering, as a wholly owned indirect subsidiary of RBS, we marketed our products and services using the "RBS" brand name and logo. We believe the association with RBS Group has provided us with preferred status among certain of our customers, vendors and other persons due to RBS Group's globally recognized brand, perceived high-quality products and services and strong capital base and financial strength.

Our separation from RBS Group could adversely affect our ability to attract and retain customers, which could result in reduced sales of our products. In connection with our initial public offering, we entered into a trademark license agreement pursuant to which we were granted a limited license to use certain RBS trademarks (including the daisywheel logo) for an initial term of five years, and, at our option, up to 10 years. We are required under the agreement to remove the "RBS" brand name from all of our products and services by the time RBS beneficially owns less than 50% of our outstanding common stock (but in no event earlier than October 1, 2015), and we lose the right to use RBS trademarks in connection with the marketing of any product or service once we rebrand and cease using RBS



trademarks in connection with such product or service. We have changed the legal names of our subsidiaries that included “RBS” and have continued operational and legal work to rebrand CFG and our banking subsidiaries. The process of changing all marketing materials, operational materials, signage, systems, and legal entities containing “RBS” to our new brand name will take approximately 14 months and cost approximately \$14 million, excluding any incremental advertising and customer communication expenses. We expect to shift the majority of our advertising and marketing budget to our new brand progressively as the different legal entities complete their individual brand name changes. We expect the shift in advertising and marketing investment to be completed no later than July 31, 2015. As a result of this rebranding, some of our existing customers may choose to stop doing business with us, which could increase customer withdrawals. In addition, other potential customers may decide not to purchase our products and services because we no longer will be a part of RBS Group. We may also receive decreased referrals of business from RBS Group. Our separation from RBS Group could prompt some third

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parties to reprice, modify or terminate their distribution or vendor relationships with us. We cannot accurately predict the effect that our separation from RBS Group will have on our business, customers or employees.

The risks relating to our separation from RBS Group could materialize or evolve at any time, including:

- when RBS reduces its beneficial ownership in our common stock to a level below 50%; and
- when we cease using the “RBS” name or the daisywheel logo in our sales and marketing materials, particularly when we deliver notices to our distributors and customers that the names of some of our subsidiaries will change.

Any failure by us to successfully replicate or replace certain functions, systems and infrastructure previously provided by RBS Group could have a material adverse effect on us.

We will need to replicate or replace certain functions, systems and infrastructure to which we no longer have the same access as we separate from RBS Group, including services we receive pursuant to the Transitional Services Agreement. We will also need to make infrastructure investments in order to operate without the same access to RBS Group’s existing operational and administrative infrastructure. Any failure to successfully implement these initiatives or to do so in a timely manner could have an adverse effect on us.

We expect to make an investment of approximately \$18 million in our systems to complete the migration of technological services following our separation from RBS Group. In particular, we will separate our shared global network and where services such as corporate risk, back office, audit and human resources are being provided by RBS Group, we will establish those services for CFG. These initiatives may not be completed on the expected timetable or within the expected budget and may not provide the system functionality or performance levels required to support the current and future needs of our business. Further, the systems and services provided to us by RBS Group under the Transitional Services Agreement will need to be replaced on or before the date of the expiration of the Transitional Services Agreement. The terms on which we purchase these new systems and services, or the functionality of the systems themselves, may be inferior to those of the systems provided by RBS Group or those available elsewhere in the market and, in relation to third-party suppliers, may be on terms that are less favorable than the terms on which services were previously provided by third parties to RBS Group, and from which we have historically benefited and will continue to benefit during the period of the Transitional Services Agreement. For more information regarding the Transitional Services Agreement, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7, included elsewhere in this report.

Any failure by RBS Group to deliver the services to be provided under the Transitional Services Agreement could have a material adverse effect on our business, financial condition and results of operations.

In connection with our separation from RBS Group, we entered into a Transitional Services Agreement with RBS Group for the continued provision of certain services to us for a specified period. Services provided for under the Transitional Services Agreement include certain information technology, operations, compliance, business continuity, legal, human resources, back office and web services. In particular, we rely on RBS Group to provide hosting, support and maintenance services that are critical to maintaining the level of support for the ongoing needs of our business.

Although the majority of the systems run under the Transitional Services Agreement are independent of RBS Group’s other systems, any technical problems occurring within RBS Group could have an adverse effect on us. As with all of our systems, interruptions to or problems with our systems and services provided under the Transitional Services Agreement or as a result of migration from RBS Group infrastructure could cause material damage to our business and reputation. If RBS Group fails to provide or procure the services envisaged or provide them in a timely manner, it could have a material adverse effect on our business, financial condition and results of operations.

RBS Group maintains a number of defined benefit pension schemes under which we could be subject to liability. RBS Group maintains a number of defined benefit pension schemes for certain former and current employees, and as of December 31, 2014, had a reported net pension deficit of approximately £1.7 billion under certain international financial reporting standards assumptions. The UK Pensions Regulator has the powers to require that CFG, as an employer connected with RBS Group, make a contribution to a UK defined benefit pension scheme if there has been an act or failure to act, one of the main purposes of which was to avoid or reduce RBS Group’s statutory obligations under the scheme or if the UK Pensions Regulator considers that an act or omission is materially detrimental to the

likelihood of a member receiving their accrued scheme benefits.

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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 that could affect us include:

- reduced consumer spending;
- lower wage income levels;
- declines in the market value of residential or commercial real estate (“CRE”);
- inflation or deflation;
- fluctuations in the value of the U.S. dollar;
- volatility in short-term and long-term interest rates and commodity prices; and
- higher bankruptcy filings.

These scenarios could require us to charge off a higher percentage of loans and increase 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. In particular, although the ongoing general economic recovery has positively impacted the real estate market, the fundamentals within the real estate sector, including asset values, high vacancy rates and rent values, remain relatively weak compared to prior to the global economic and financial crisis. Should the recovery of real estate asset values, reduction in vacancies and improvement in rents be interrupted for an extended period of time, it could have a material adverse effect on our business, financial condition and results of operations.

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 the following:

Non-banking financial institutions. The ability of these institutions to offer services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures.

Securities firms and insurance companies. These companies, if they elect to become financial holding companies, can offer virtually any type of financial service. This may significantly change the competitive environment in which we conduct our business.

Competitors that have greater financial resources. Some of our larger competitors, including certain national and international banks that have a significant presence in our market area, may have greater capital and resources, higher lending limits and may offer products, services and technology that we do not. We cannot predict the reaction of our customers and other third parties with respect to our financial or commercial strength relative to our competition, including our larger competitors.

As a result of these and other sources of 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.

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Volatility in the global financial markets resulting from relapse of the Eurozone crisis, geopolitical developments in Eastern Europe or otherwise could have a material adverse effect on our business, financial condition and results of operations.

Volatility in the global financial markets could have an adverse effect on the economic recovery in the United States and could result from a number of causes, including a relapse in the Eurozone crisis, geopolitical developments in Eastern Europe or otherwise. The effects of the Eurozone crisis, which began in late 2009 as part of the global economic and financial crisis, continued to impact the global financial markets through 2014. Numerous factors continued to fuel the Eurozone crisis, including continued high levels of government debt, the undercapitalization and liquidity problems of many banks in the Eurozone and relatively low levels of economic growth. These factors made it difficult or impossible for some countries in the Eurozone to repay or refinance their debt without the assistance of third parties. As a combination of austerity programs, debt write-downs and the European Central Bank's commitment to restore financial stability to the Eurozone and the finalization of the primary European Stability Mechanism bailout fund, in 2013 and into 2014 interest rates began to fall and stock prices began to increase. Although these trends helped to stabilize the effects of the Eurozone crisis in the first half of 2014, the underlying causes of the crisis were not completely eliminated. As a result, the financial markets relapsed toward the end of 2014. In addition, Russian intervention in Ukraine during 2014 significantly increased regional geopolitical tensions. In response to Russian actions, U.S. and European governments have imposed sanctions on a limited number of Russian individuals and business entities. The situation remains fluid with potential for further escalation of geopolitical tensions, increased severity of sanctions against Russian interests, and possible Russian counter-measures. Further economic sanctions could destabilize the economic environment and result in increased volatility. Should the economic recovery in the United States be adversely impacted by a return in volatility in the global financial markets caused by a continued relapse in the Eurozone crisis or developments in respect of the Russian sanctions or for any other reason, loan and asset growth and liquidity conditions at U.S. financial institutions, including us, may deteriorate. Moreover, until RBS divests its interest in us, adverse trends in the Eurozone and Eastern Europe could increase investor concern or, even if not accurate, stimulate perceptions of funding difficulties for our business because RBS is based in the United Kingdom and has significant exposure to European economies. If any of these factors were to materialize, it could have a material adverse effect on our business, financial condition and results of operations.

Further downgrades to the U.S. government's credit rating, or the credit rating of its securities, by one or more of the credit ratings agencies could have a material adverse effect on general economic conditions, as well as our operations, earnings and financial condition.

On August 5, 2011, Standard & Poor's cut the U.S. government's sovereign credit rating of long-term U.S. federal debt from AAA to AA+ while also keeping its outlook negative. Moody's also lowered its outlook to "Negative" on August 2, 2011, and Fitch lowered its outlook to "Negative" on November 28, 2011. During 2013, both Moody's and Standard & Poor's revised their outlook from "Negative" to "Stable," and on March 21, 2014, Fitch revised its outlook from "Negative" to "Stable." Further downgrades of the U.S. government's sovereign credit rating, and the perceived creditworthiness of U.S. government-related obligations, could impact our ability to obtain funding that is collateralized by affected instruments. Such downgrades could also affect the pricing of funding when it is available. A downgrade may also adversely affect the market value of such instruments. A downgrade of the sovereign credit ratings of the U.S. government or the credit ratings of related institutions, agencies or instrumentalities would significantly exacerbate the other risks to which we are subject and any related adverse effects on its business, financial condition and results of operations.

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

Financial services institutions that deal with each other are 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 Federal Home Loan Banks (“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.

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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 Federal Reserve Board. 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 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 Federal Reserve Board 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 Federal Reserve Board. If a company does not return to compliance within 180 days, which period may be extended, the Federal Reserve Board may require divestiture of that company's depository institutions. To the extent we do not meet the requirements to be a financial holding company, 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 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 could have a material adverse effect on our business and earnings.

We are heavily regulated by bank and other regulatory agencies at the federal and state levels. This regulatory oversight is established to protect depositors, the FDIC's Deposit Insurance Fund, and the banking system as a whole, not security holders. Changes to statutes, regulations, rules or policies including the interpretation or implementation of statutes, regulations, rules or policies could affect us in substantial and unpredictable ways including 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 to offer competing financial services and products.

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. The capital adequacy and liquidity standards that we must meet include the following:

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**Current capital requirements.** Under regulatory capital adequacy guidelines and other regulatory requirements, CFG and its banking subsidiaries must meet guidelines that include quantitative measures of assets, liabilities and certain off-balance sheet items, subject to qualitative judgments by regulators about components of qualifying capital, risk weightings and other factors. We are regulated as a bank holding company and subject to consolidated regulatory capital requirements administered by the Federal Reserve. Our banking subsidiaries are subject to similar capital requirements, administered by the OCC in the case of CBNA and by the FDIC in the case of CBPA. Failure by us or one of our banking subsidiaries to maintain its status as “adequately capitalized” would lead to regulatory sanctions and limitations and could lead the federal banking agencies to take “prompt corrective action.” Furthermore, a failure by our banking subsidiaries to be “well capitalized” under applicable regulatory guidelines could lead to higher FDIC assessments, and failure by us or our bank subsidiaries to be “well capitalized” could also impair our financial holding company status.

**Basel III.** The U.S. Basel III final rule and provisions in the Dodd-Frank Act, including the Collins Amendment, are increasing capital requirements for banking organizations such as us. Consistent with the Basel Committee’s Basel III capital framework, the U.S. Basel III final rule includes a new minimum ratio of CET1 capital to risk-weighted assets of 4.5% and a CET1 capital conservation buffer of greater than 2.5% of risk-weighted assets. We have established capital ratio targets that align with U.S. regulatory expectations under fully phased-in Basel III rules. Although we currently have capital ratios that exceed these minimum levels and a strategic plan to keep them at least at these levels, failure to maintain the capital conservation buffer would result in increasingly stringent restrictions on our ability to make dividend payments and other capital distributions and pay discretionary bonuses to executive officers. As to us, the U.S. Basel III final rule phases in over time beginning on January 1, 2015, and will become fully effective on January 1, 2019.

**Capital Plans.** We are required to submit an annual capital plan to the Federal Reserve Board. The capital plan must include an assessment of our expected uses and sources of capital over a forward-looking planning horizon of at least nine quarters, a detailed description of our process for assessing capital adequacy, our capital policy and a discussion of any expected changes to our business plan that are likely to have a material impact on our capital adequacy or liquidity. Based on a qualitative and quantitative assessment, including a supervisory stress test conducted as part of the CCAR process, the Federal Reserve Board will either object to our capital plan, in whole or in part, or provide a notice of non-objection to us by March 31 of a calendar year. If the Federal Reserve Board objects to a capital plan, we may not make any capital distribution other than those with respect to which the Federal Reserve Board has indicated its non-objection. Although we were permitted to continue capital actions at a level consistent with those executed in 2013, the Federal Reserve Board objected to certain qualitative aspects of our 2014 capital plan and we are not permitted to increase our capital distributions above 2013 levels until a new capital plan is approved by the Federal Reserve Board. We submitted our capital plan on January 5, 2015, and we cannot assure you that the Federal Reserve Board will not object to that capital plan or that, even if it does not object to it, our planned capital distributions will not be significantly modified from 2013 levels.

**Stress Tests.** In addition to capital planning, we and our banking subsidiaries are subject to capital stress testing requirements imposed by the Dodd-Frank Act that will likely require us to hold more capital than the minimum requirements applicable to us. The stress testing requirements are designed to show that we can meet our capital requirements even under stressed economic conditions.

**Liquidity Coverage Ratio.** The federal banking regulators also evaluate our liquidity as part of the supervisory process. In September 2014, the U.S. federal banking regulators issued a final rule with respect to the U.S. implementation of the LCR. This rule includes a modified version of the Basel Committee’s LCR in the United States,

which applies to bank holding companies with more than \$50 billion but less than \$250 billion in total assets, and less than \$10 billion in on-balance sheet foreign exposure, such as us. The modified version of the LCR differs in certain respects from the Basel Committee’s version of the LCR, including a narrower definition of high-quality liquid assets, different prescribed cash inflow and outflow assumptions for certain types of instruments and transactions and a shorter phase-in schedule that begins on January 1, 2016 and ends on January 1, 2017. The Basel Committee also has finalized its NSFR rule, which is expected to be adopted in the United States and could be applicable to us. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Capital” and “—Liquidity” Part II, Item 7, included elsewhere in this report, for further discussion of the capital adequacy and liquidity standards to which we are subject.

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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.

Federal Reserve Board 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 Federal Reserve Board 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 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 CBPA. 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. For example:

CBNA is required by federal law to obtain the prior approval of the OCC for the payment of cash dividends if the total of all dividends declared by CBNA in the calendar year is in excess of its current year net income combined with its retained net income of the two preceding years, less any required transfers to surplus (the “recent earnings test”).

CBNA may pay dividends only to the extent that retained net profits (as defined and interpreted by regulation), including the portion transferred to surplus, exceed bad debts (as defined by regulation).

CBPA may only pay dividends out of accumulated net earnings and dividends may not be declared unless surplus is at least equal to contributed capital.

Neither CBNA nor CBPA may pay a dividend if, in the opinion of the applicable federal regulatory agency, either is engaged in or is about to engage in an unsafe or unsound practice, which would include a dividend payment that would reduce either bank’s capital to an inadequate level.

As a result of the goodwill impairment recognized by CBNA in the second quarter of 2013, CBNA does not meet the recent earnings test and must obtain specific prior approval from the OCC before making a capital distribution. We expect the recent earnings test to remain negative through 2015. As a result, we expect that CBNA will be required to obtain specific prior approval from the OCC before making a capital distribution through 2015. Since the goodwill impairment in 2013, the OCC has approved each request by CBNA to distribute to us up to 30% of its prior quarter after-tax net income. However, CBNA may not rely on past or current approvals as a guarantee of future approvals.

Under the Pennsylvania Banking Code of 1965, as amended (the “PA Code”), CBPA is restricted from paying dividends in excess of accumulated net earnings. As of December 31, 2014, CBPA’s accumulated net earnings were \$87 million. More generally, the banking agencies have significant discretion to limit or even preclude dividends, even if the statutory quantitative thresholds are satisfied.

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

We 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 and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief that

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may require changes to our business or otherwise materially impact our business. For example, in April 2013, our banking subsidiaries consented to the issuance of orders by the OCC and the FDIC (the “Consent Orders”). In the Consent Orders (which are publicly available and will remain in effect until terminated by the regulators), our banking subsidiaries neither admitted nor denied the regulators’ findings that they had engaged in deceptive marketing and implementation of the bank’s overdraft protection program, checking rewards programs and stop-payment process for pre-authorized recurring electronic fund transfers. Under the Consent Orders, our banking subsidiaries paid a total of \$10 million in civil monetary penalties and \$8 million in restitution to affected customers, agreed to cease and desist any operations in violation of Section 5 of the Federal Trade Commission Act, and submit to the regulators periodic written progress reports regarding compliance with the Consent Orders. For more information regarding ongoing significant regulatory actions in which we are involved and certain identified past practices and policies for which we could face potential formal administrative enforcement actions, see Note 16 “Commitments and Contingencies” to our audited Consolidated Financial Statements included in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in the report, for further discussion.

In regulatory actions, such as those referred to above, it is inherently difficult to determine whether any loss is probable or 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 expect to make significant restitution payments to our banking subsidiaries’ customers arising from certain of the consumer compliance issues and also expect to pay civil money penalties in connection with certain of these issues. 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 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. We recently settled legal actions alleging violations under the Fair Labor Standards Act and certain state fair wage laws. 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 private litigation to which we are subject. For more information regarding ongoing significant legal proceedings in which we are involved and certain identified past practices and policies for which we could face potential civil litigation, see Note 16 “Commitments and Contingencies” to our audited Consolidated Financial Statements included in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in the report, for further discussion.

In disputes and legal proceedings, such as those referred to above, it is inherently difficult to determine whether any loss is probable or 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 settlement, fine, penalty or other relief, if any, may be, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial or indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any proceeding. Adverse judgments in litigation or adverse regulatory actions could have a material adverse effect on our business, financial

condition and results of operations.

The Dodd-Frank Act has changed and will likely continue to substantially change the legal and regulatory framework under which we operate our business.

On July 21, 2010, President Obama signed into law the Dodd-Frank Act, which has changed and will likely continue to substantially change the legal and regulatory framework under which we operate. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial-services industry, addressing, among other things, (i) systemic risk, (ii) capital adequacy, (iii) consumer financial protection, (iv) interchange fees, (v) mortgage lending practices, and (vi) regulation of derivatives and securities markets. A significant number of the provisions of the Dodd-Frank Act still require extensive rulemaking

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and interpretation by regulatory authorities. In several cases, authorities have extended implementation periods and delayed effective dates. Accordingly, in many respects the ultimate impact of the Dodd-Frank Act and its effects on the U.S. financial system and on us will not be known for an extended period of time.

The following are some of the current provisions of the Dodd-Frank Act that may affect our operations:

• Creation of the CFPB with centralized authority for consumer protection in the banking industry.

• New limitations on federal preemption.

• Application of heightened capital, liquidity, single counterparty credit limits, stress testing, risk management and other enhanced prudential standards.

• Changes to the assessment base for deposit insurance premiums.

• Creation of a new framework for the regulation of over-the-counter derivatives and new regulations for the securitization market and the strengthening of the regulatory oversight of securities and capital markets by the SEC. Some of these and other major changes under the Dodd-Frank Act could materially impact the profitability of our business, the value of assets we hold or the collateral available for coverage under our loans, require changes to our business practices or force us to discontinue businesses and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk.

The Dodd-Frank Act's provisions and related rules that restrict bank interchange fees may negatively impact our revenues and earnings.

Pursuant to the Dodd-Frank Act, the Federal Reserve Board adopted rules effective October 1, 2011, limiting the interchange fees that may be charged with respect to electronic debit transactions. Interchange fees, or "swipe" fees, are charges that merchants pay to us and other credit card companies and card-issuing banks for processing electronic payment transactions. Since taking effect, these limitations have reduced our debit card interchange revenues and have created meaningful compliance costs. Additional limits may further reduce our debit card interchange revenues and create additional compliance costs.

The CFPB's residential mortgage regulations could adversely affect our business, financial condition or results of operations.

The CFPB finalized a number of significant rules that will impact nearly every aspect of the lifecycle of a residential mortgage. These rules implement the Dodd-Frank Act amendments to the Equal Credit Opportunity Act, the Truth in Lending Act and the Real Estate Settlement Procedures Act. The final rules require banks to, among other things: (i) develop and implement procedures to ensure compliance with a new "reasonable ability to repay" test 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 compensation, and (iv) comply with new disclosure requirements and standards for appraisals and escrow accounts maintained for "higher priced mortgage loans." These new rules create operational and strategic challenges for us, as we are both a mortgage originator and a servicer. For example, business models for cost, pricing, delivery, compensation and risk management will need to be reevaluated and potentially revised, perhaps substantially. Additionally, programming changes and enhancements to systems will be necessary to comply with the new rules. We also expect additional rulemaking affecting our residential mortgage business to be forthcoming. These rules and any other new regulatory requirements promulgated by the CFPB and state regulatory authorities could require changes to our business, in addition to the changes we have been required to make thus far. Such changes would result in increased compliance costs and potential changes to our product offerings, which would have an adverse effect on the revenue derived from such business.

The Dodd-Frank Act's consumer protection regulations could adversely affect our business, financial condition or results of operations.

The Federal Reserve Board enacted consumer protection regulations related to automated overdraft payment programs offered by financial institutions. Prior to the enactment of these regulations, our overdraft and insufficient funds fees represented a significant amount of noninterest fees. Since taking effect on July 1, 2010, the fees received by us for



automated overdraft payment services have decreased, thereby adversely impacting our noninterest income. Complying with these regulations has resulted in increased operational costs for us, which may continue to rise. The actual impact of these regulations in future periods could vary due to a variety of factors, including changes in customer behavior, economic conditions and other factors, which could

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adversely affect our business, financial condition or results of operations. The CFPB has since then published additional studies of overdraft practices and has announced that it is considering enacting further regulations regarding overdrafts and related services.

The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created a more intense and complex environment for consumer finance regulation. The CFPB is authorized to engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. We expect increased oversight of financial services products by the CFPB, which is likely to affect our operations. The CFPB has significant authority to implement and enforce federal consumer finance laws, including the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Credit Billing Act and new requirements for financial services products provided for in the Dodd-Frank Act, as well as the authority to identify and prohibit unfair, deceptive or abusive acts and practices (“UDAAP”). The review of products and practices to prevent UDAAP is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties.

In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations, and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief and/or monetary penalties. The Dodd-Frank Act and accompanying regulations, including regulations to be promulgated by the CFPB, are being phased in over time, and while some regulations have been promulgated, many others have not yet been proposed or finalized. For example, the CFPB has announced that it is considering new rules regarding debt collection practices, and has proposed new regulations of prepaid accounts and proposed amendments to its regulations implementing the Home Mortgage Disclosure Act. We cannot predict the terms of all of the final regulations, their intended consequences or how such regulations will affect us or our industry.

The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

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 Federal Reserve Board and FDIC determine that our resolution plan is not credible.

Federal Reserve Board 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. 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 Federal Reserve Board and the FDIC jointly determine that the resolution plan of a company is not credible, and

the company fails to cure the deficiencies in a timely manner, then the Federal Reserve Board 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 Federal Reserve Board and the FDIC 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.

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Risks Related to our Common Stock

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale, and RBS has committed to sell its remaining beneficial ownership of our common stock by the end of 2016 with a possible 12 month extension in certain circumstances. The exact timing of such sale or sales remains uncertain. The sale of substantial amounts of shares of our common stock in the public market, or the perception that such sales could occur, could harm the prevailing market price of common stock. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. Upon completion of our initial public offering, we had a total of 559,998,324 outstanding shares of common stock. Of the outstanding shares, the 161,000,000 shares sold in our initial public offering are freely tradable without restriction or further registration under the Securities Act, except that any shares held by our affiliates, as that term is defined under Rule 144 of the Securities Act, may be sold only in compliance with applicable limitations. The remaining 398,998,324 shares that were outstanding following completion of the initial public offering were held by RBSG International Holdings Limited, a wholly owned subsidiary of RBS. These shares are subject to certain restrictions on resale. We, our officers, directors and the selling stockholders that own shares of our common stock following the completion of the initial public offering, signed lock-up agreements with the underwriters that, subject to certain customary exceptions, restrict the sale of the shares of our common stock held by them for 180 days following the date of our initial public offering, subject to extension in the case of an earnings release or material news or a material event relating to us. Morgan Stanley & Co. LLC, Goldman, Sachs & Co. and J.P. Morgan Securities LLC may, in their sole discretion, terminate these lock-up agreements or release all or any portion of the shares of common stock subject to lock-up agreements.

Upon the expiration, waiver, or release of the lock-up agreements described above, all such shares will be eligible for resale in a public market, subject, in the case of shares held by our affiliates, to volume, manner of sale and other limitations under Rule 144. We expect that the members of RBS Group will be considered affiliates after the expiration of the lock-up agreements based on their expected share ownership as well as their veto and board nomination rights under the Separation Agreement we entered into with RBS prior to the completion of our initial public offering. However, commencing after the expiration of the lock-up agreements, RBS has the right, subject to certain exceptions and conditions, to require us to register its shares of common stock under the Securities Act, and it will have the right to participate in future registrations of securities by us. Registration of any of these outstanding shares of common stock would result in such shares becoming freely tradable without compliance with Rule 144 upon effectiveness of the registration statement.

As restrictions on resale end, the market price of our shares of common stock could drop significantly as RBS has publicly stated its intent to sell its remaining shares in the short to medium term. RBS Group, which is currently controlled by the UK government, is undertaking a restructuring plan to facilitate its eventual privatization. As part of its obligations under the European Commission's State Aid Amendment Decision of April 9, 2014, RBS has committed to dispose of its remaining ownership of our common stock by December 31, 2016, with an automatic 12-month extension depending on market conditions. RBS's current intention for disposal of its remaining ownership of our common stock is to sell, over time, such remaining shares in a series of tranches, subject to market conditions and the terms of the lock-up provisions discussed above. The timing and manner of the sale of RBS's remaining ownership of our common stock remains uncertain, and we have no control over the manner in which RBS may seek to divest such remaining shares. RBS could elect to sell its common stock in a number of different ways, including in a number of tranches via future registrations or, alternatively, by the sale of all or a significant tranche of such remaining shares to a single third-party purchaser. Any such sale would impact the price of our shares of common stock and there can be no guarantee that the price at which RBS is willing to sell its remaining shares will be at a level that our Board would be prepared to recommend to holders of our common stock or that you determine adequately values our shares of common stock.

In addition, these factors could also make it more difficult for us to raise additional funds through future offerings of our shares of common stock or other securities.

If RBS sells a controlling interest in our company to a third party in a private transaction, you may not realize any change-of-control premium on shares of our common stock and we may become subject to the control of a presently unknown third party.

RBS beneficially owns a significant equity interest of our company. RBS will have the ability, should it choose to do so, to sell some or all of its shares of our common stock in a privately negotiated transaction, which, if sufficient in size, could result in a change of control of our company.

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The ability of RBS to privately sell its shares of our common stock, with no requirement for a concurrent offer to be made to acquire all of the shares of our outstanding common stock that will be publicly traded hereafter, could prevent you from realizing any change-of-control premium on your shares of our common stock that may otherwise accrue to RBS on its private sale of our common stock. Additionally, if RBS privately sells its significant equity interest in our company, we may become subject to the control of a presently unknown third party. Such third party may have conflicts of interest with those of other stockholders. In addition, if RBS sells a controlling interest in our company to a third party, RBS may terminate the license agreement and other transitional arrangements, and our other commercial agreements and relationships could be impacted, all of which may adversely affect our ability to run our business and may have a material adverse effect on our business, operating results and financial condition.

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.

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 pay cash dividends on our common stock.

Although we intend to pay dividends to our stockholders, we have no obligation to do so and may change our dividend policy at any time without notice to our stockholders. Holders of our common stock are only entitled to receive such cash dividends as our Board may declare out of funds legally available for such payments. Any decision to declare and pay dividends will be dependent on a variety of factors, including our financial condition, earnings, legal requirements and other factors that our Board deems relevant, as well as obtaining applicable regulatory consents and approvals as described under “Regulation and Supervision,” in Part I, Item 1 — Business, included elsewhere in this report, including the CCAR process. In addition, our ability to pay dividends may be limited by covenants of any future indebtedness we or our subsidiaries incur. As a result, you may not receive any return on an investment in our common stock unless you sell our common stock for a price greater than that which you paid for it. In addition, since we are a holding company with no significant assets other than the capital stock of our banking subsidiaries, we depend upon dividends from our banking subsidiaries for substantially all of our income. Accordingly, our ability to pay dividends depends primarily upon the receipt of dividends or other capital distributions from our banking subsidiaries. The ability of our banking subsidiaries to pay dividends to us is subject to, among other things, their

earnings, financial condition and need for funds, as well as federal and state governmental policies and regulations applicable to us and our banking subsidiaries, which limit the

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amount that may be paid as dividends without prior regulatory approval. See “—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” and “Regulation and Supervision,” in Part I, Item 1 — Business, included elsewhere in this report.

“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.

These provisions include the following, some of which may only become effective when RBS no longer owns shares of our common stock representing at least 50% of our issued and outstanding capital stock:

- the sole ability of our Board to fill a director vacancy on our Board;
- advance notice requirements for stockholder proposals and director nominations;
- provisions limiting the stockholders’ ability to call special meetings of stockholders, to require special meetings of stockholders to be called and to take action by written consent;
- the approval of holders of at least 75% of the shares entitled to vote generally to amend, alter, change or repeal specified provisions, including those relating to actions by written consent of stockholders, calling of special meetings of stockholders, business combinations and amendment of our amended and restated certificate of incorporation and amended and restated bylaws; and
- the ability of our Board to designate the terms of and issue new series of preferred stock without stockholder approval, which could be used, among other things, to institute a rights plan that would have the effect of significantly diluting the stock ownership of a potential hostile acquirer, likely preventing acquisitions that have not been approved by our Board.

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. These laws could delay or prevent an acquisition.



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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters is in Providence, Rhode Island. As of December 31, 2014, we leased approximately 5.6 million square feet of office and retail branch space. Our portfolio of leased space consisted of 3.7 million square feet of retail branch space which spanned eleven states and 1.9 million square feet of non-branch office space. As of December 31, 2014, we owned an additional 800,000 square feet of office and branch space. We operated 82 branches in Rhode Island, 45 in Connecticut, 247 in Massachusetts, 20 in Vermont, 73 in New Hampshire, 146 in New York, 11 in New Jersey, 358 in Pennsylvania, 23 in Delaware, 116 in Ohio and 97 in Michigan. Of these branches, 1,175 are leased and the rest 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.

ITEM 3. LEGAL PROCEEDINGS

Information required by this item is presented in Note 16 "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

The common stock of Citizens is traded on the New York Stock Exchange under the symbol "CFG." As of February 18, 2015, our common stock was owned by two holders of record (RBSG International Holdings Limited and Cede & Co.) and approximately 31,500 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 elsewhere in this report. Information regarding restrictions on dividends, as required by this Item, is presented in Note 20 "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 elsewhere 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 elsewhere in this report.

The following table provides information regarding our repurchases of common stock during the year ended December 31, 2014:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased As Part of Publicly Announced Plans or Programs
October 1, 2014 — October 30, 2014	14,297,761	\$23.36	Not Applicable	Not Applicable

(1) Represents shares purchased from RBS Group. For further information, see Note 12 "Stockholders' Equity" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

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The following graph compares the cumulative total stockholder returns relative to the performance of the Standard & Poor's 500 Composite Stock Index, a commonly referenced U.S. equity benchmark consisting of leading companies from a diversity of economic sectors; the Keefe, Bruyette & Woods Regional Bank Index ("BKX"), composed of 24 leading national money center and regional banks and thrifts; and a group of other banks that constitute our regional banks peers (BB&T, Comerica, Fifth Third, KeyCorp, M&T, PNC, Regions, SunTrust and U.S. Bancorp) for our fiscal 2014 performance, commencing on September 24, 2014, Citizens' initial day of trading. The graph assumes \$100 invested at the closing price on September 24, 2014 in each of CFG common stock, the S&P 500 index, the BKX and the peer group 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 month-end amounts based on the last trading day in each fiscal month.

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	10/31/2014	11/30/2014	12/31/2014
CFG	\$100	\$101	\$102	\$107	\$108
S&P 500 Index	100	99	101	104	104
KBW BKX Index	100	98	99	100	103
Peer Regional Bank Average	\$100	\$99	\$100	\$102	\$105

CITIZENS FINANCIAL GROUP, INC.  
SELECTED CONSOLIDATED FINANCIAL DATA

## ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

We derived the selected Consolidated Statement of Operating data for the years ended December 31, 2014, 2013, 2012 and the selected Consolidated Balance Sheet data as of December 31, 2014 and 2013 from our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report. We derived the selected Consolidated Statement of Operations data for the years ended December 31, 2011 and 2010 and the selected Consolidated Balance Sheet data as of December 31, 2012, 2011, and 2010 from our audited Consolidated Financial Statements, not included herein. Our historical results are not necessarily indicative of the results expected for any future period.

You should read the following selected consolidated financial data 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 elsewhere in this report.

(dollars in millions, except per share amounts)	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
<b>OPERATING DATA:</b>					
Net interest income	\$3,301	\$3,058	\$3,227	\$3,320	\$3,345
Noninterest income	1,678	1,632	1,667	1,711	1,733
Total revenue	4,979	4,690	4,894	5,031	5,078
Provision for credit losses	319	479	413	882	1,644
Noninterest expense	3,392	7,679	3,457	3,371	3,483
Noninterest expense, excluding goodwill impairment <sup>(1)</sup>	3,392	3,244	3,457	3,371	3,483
Income (loss) before income tax expense (benefit)	1,268	(3,468 )	1,024	778	(49 )
Income tax expense (benefit)	403	(42 )	381	272	(61 )
Net income (loss)	865	(3,426 )	643	506	11
Net income, excluding goodwill impairment <sup>(1)</sup>	865	654	643	506	11
Net income (loss) per average common share - basic <sup>(2)</sup>	1.55	(6.12 )	1.15	0.90	0.02
Net income (loss) per average common share - diluted <sup>(2)</sup>	1.55	(6.12 )	1.15	0.90	0.02
Net income per average common share - basic, excluding goodwill impairment <sup>(1) (2)</sup>	1.55	1.17	1.15	0.90	0.02
Net income per average common share - diluted, excluding goodwill impairment <sup>(1) (2)</sup>	1.55	1.17	1.15	0.90	0.02
Dividends declared and paid per common share	1.43	2.12	0.27	—	—
<b>OTHER OPERATING DATA:</b>					
Return on average common equity <sup>(3)</sup>	4.46	% (15.69 %)	2.69	% 2.19	% 0.05 %
Return on average common equity, excluding goodwill impairment <sup>(1)</sup>	4.46	3.00	2.69	2.19	0.05
Return on average tangible common equity <sup>(1)</sup>	6.71	(25.91 )	4.86	4.18	0.11
Return on average tangible common equity, excluding goodwill impairment <sup>(1)</sup>	6.71	4.95	4.86	4.18	0.11
Return on average total assets <sup>(4)</sup>	0.68	(2.83 )	0.50	0.39	0.01
Return on average total assets, excluding goodwill impairment <sup>(1)</sup>	0.68	0.54	0.50	0.39	0.01
Return on average total tangible assets <sup>(1)</sup>	0.71	(3.05 )	0.55	0.43	0.01
Return on average total tangible assets, excluding goodwill impairment <sup>(1)</sup>	0.71	0.58	0.55	0.43	0.01
Efficiency ratio <sup>(1)</sup>	68.12	163.73	70.64	67.00	68.59

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Efficiency ratio, excluding goodwill impairment <sup>(1)</sup>	68.12	69.17	70.64	67.00	68.59
Net interest margin <sup>(5)</sup>	2.83	2.85	2.89	2.97	2.78

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CITIZENS FINANCIAL GROUP, INC.  
SELECTED CONSOLIDATED FINANCIAL DATA

(in millions)	As of December 31,					
	2014	2013	2012	2011	2010	
<b>BALANCE SHEET DATA:</b>						
Total assets	\$132,857	\$122,154	\$127,053	\$129,654	\$129,689	
Loans and leases <sup>(6)</sup>	93,410	85,859	87,248	86,795	87,022	
Allowance for loan and lease losses	1,195	1,221	1,255	1,698	2,005	
Total securities	24,676	21,245	19,417	23,352	21,802	
Goodwill	6,876	6,876	11,311	11,311	11,311	
Total liabilities	113,589	102,958	102,924	106,261	106,995	
Total deposits <sup>(7)</sup>	95,707	86,903	95,148	92,888	92,155	
Federal funds purchased and securities sold under agreements to repurchase	4,276	4,791	3,601	4,152	5,112	
Other short-term borrowed funds	6,253	2,251	501	3,100	1,930	
Long-term borrowed funds	4,642	1,405	694	3,242	5,854	
Total stockholders' equity	19,268	19,196	24,129	23,393	22,694	
	As of December 31,					
	2014	2013	2012	2011	2010	
<b>OTHER BALANCE SHEET DATA:</b>						
<b>Asset Quality Ratios</b>						
Allowance for loan and lease losses as a % of total loans and leases	1.28	% 1.42	% 1.44	% 1.96	% 2.30	%
Allowance for loan and lease losses as a % of nonperforming loans and leases	109	86	67	95	85	
Nonperforming loans and leases as a % of total loans and leases	1.18	1.65	2.14	2.06	2.71	
<b>Capital ratios</b>						
Tier 1 risk-based capital ratio <sup>(8)</sup>	12.4	13.5	14.2	13.9	13.0	
Total risk-based capital ratio <sup>(9)</sup>	15.8	16.1	15.8	15.1	14.4	
Tier 1 common equity ratio <sup>(10)</sup>	12.4	13.5	13.9	13.3	12.5	
Tier 1 leverage ratio <sup>(11)</sup>	10.6	11.6	12.1	11.6	10.4	

<sup>(1)</sup> These measures are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures” in Part II, Item 7, included elsewhere in this report.

<sup>(2)</sup> Earnings per share information reflects a 165,582-for-1 forward stock split effective on August 22, 2014.

<sup>(3)</sup> We define “Return on average common equity” as net income (loss) divided by average common equity.

<sup>(4)</sup> We define “Return on average total assets” as net income (loss) divided by average total assets.

<sup>(5)</sup> We define “Net interest margin” as net interest income divided by average total interest-earning assets.

<sup>(6)</sup> Excludes loans held for sale of \$281 million, \$1.3 billion, \$646 million, \$564 million, and \$716 million as of December 31, 2014, 2013, 2012, 2011, and 2010, respectively.

<sup>(7)</sup> Excludes deposits held for sale of \$5.3 billion as of December 31, 2013.

<sup>(8)</sup> “Tier 1 risk-based capital ratio” is Tier 1 capital balance divided by total risk-weighted assets as defined under Basel I.

<sup>(9)</sup> “Total risk-based capital ratio” is total capital balance divided by total risk-weighted assets as defined under Basel I.

<sup>(10)</sup> “Tier 1 common equity ratio” is Tier 1 capital balance, minus preferred stock, divided by total risk-weighted assets as defined under Basel I.

(11) "Tier 1 leverage ratio" is Tier 1 capital balance divided by quarterly average total assets as defined under Basel I.

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

Overview

We were the 13<sup>th</sup> largest retail bank holding company in the United States as of December 31, 2014, according to SNL Financial, with \$132.9 billion of total assets. Headquartered in Providence, Rhode Island, we deliver a broad range of retail and commercial banking products and services to individuals, institutions and companies. Our approximately 17,700 employees strive to meet the financial needs of customers and prospects through approximately 1,200 branches and approximately 3,200 ATMs operated in an 11-state footprint across the New England, Mid-Atlantic and Midwest regions and through our online, telephone and mobile banking platforms. We conduct our banking operations through our two wholly-owned banking subsidiaries, Citizens Bank, National Association and Citizens Bank of Pennsylvania. We operate our business through two operating segments: Consumer Banking and Commercial Banking. Consumer Banking accounted for \$47.7 billion and \$45.1 billion, or approximately 53% and 53% of our average loan and lease balances (including loans held for sale) for the years ended December 31, 2014 and 2013, respectively. Consumer Banking serves retail customers and small businesses with annual revenues of up to \$25 million with products and services that include deposit products, mortgage and home equity lending, student loans, auto financing, credit cards, business loans and wealth management and investment services.

Commercial Banking accounted for \$37.7 billion and \$34.6 billion, or approximately 42% and 40% of our average loan and lease balances (including loans held for sale) for the years ended December 31, 2014 and 2013, respectively. Commercial Banking offers a broad complement of financial products and solutions, including lending and leasing, trade financing, deposit and treasury management, foreign exchange and interest rate risk management, corporate finance and debt and equity capital markets capabilities.

As of December 31, 2014 and 2013, we had \$3.1 billion and \$3.8 billion, respectively, of non-core asset balances, which were included in Other along with our treasury function, securities portfolio, wholesale funding activities, goodwill, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to the Consumer Banking or Commercial Banking segments. Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. We have actively managed these assets down since they were designated as non-core on June 30, 2009, and the portfolio decreased a further 19% as of December 31, 2014 compared to December 31, 2013. The largest component of our non-core portfolio is our home equity products serviced by others (a portion of which we now service internally).

Recent Events

On December 4, 2014, our subsidiary, CBNA, issued \$1.5 billion aggregate principal amount of senior notes (collectively, the "senior notes"). The senior notes consisted of \$750 million of 1.600% senior unsecured notes due December 2017 at an issue price of 99.947% and \$750 million of 2.450% senior unsecured notes due December 2019 at an issue price of 99.906%. The senior notes were offered under the Bank's Global Bank Note Program dated December 1, 2014. The Bank used the proceeds for general corporate purposes. The securities have not been registered under the Securities Act of 1933.

On September 29, 2014, we completed the initial public offering through the sale by RBS Group of 161,000,000 shares, or 28.8%, of our common stock, which included the full exercise of the underwriters' option to purchase an additional 21,000,000 shares. Our common stock began trading on the New York Stock Exchange on September 24, 2014, under the ticker symbol "CFG." Subsequently, on October 8, 2014, we executed a capital exchange transaction with RBS Group which involved the issuance of \$334 million of 10-year subordinated notes at a rate of 4.082% and the simultaneous repurchase of 14,297,761 shares of common stock owned by RBS Group at an average price per share of \$23.36. We plan to continue our strategy of capital optimization by repurchasing an additional \$500 million to \$750 million of our shares of common stock with the proceeds from the issuance of preferred stock, subordinated debt, or senior debt in 2015 and 2016, subject to regulatory approval and market conditions. Upon completion of the capital transaction with RBS Group on October 8, 2014, RBS Group owned 70.5% of the outstanding common stock of CFG. For additional information, see "—Capital."

On June 20, 2014, we completed the sale of certain assets and liabilities associated with our Chicago-area retail branches, small business relationships and select middle market relationships to U.S. Bancorp. The agreement to sell these assets and liabilities to U.S. Bancorp had previously been announced in January 2014. This sale included 103 branches, including 94 full-service branches, with \$4.8 billion of deposits and \$1.0 billion in loans as of June 20, 2014. We recorded a pre-tax gain on the sale of \$288 million and also incurred related expenses of \$17 million. Management estimates that the Chicago Divestiture has the effect of reducing quarterly net interest income by approximately \$13 million, noninterest income by approximately \$12 million and

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noninterest expense by approximately \$21 million. We intend to invest the majority of the sale proceeds over time into higher returning activities.

On May 29, 2014, we entered into an agreement with a third party to purchase predominantly prime auto loans, including an initial purchase of \$150 million in principal balances of loans. On the same date, we entered into an agreement with the same party to purchase auto loans for future rolling 90-day periods that automatically renew until termination by either party. For the first year ended May 29, 2015, we are required to purchase a minimum of \$250 million in principal balances of loans up to a maximum of \$600 million in principal balances of loans per rolling 90-day period. After May 29, 2015, the minimum per each rolling 90-day period increases to \$400 million in principal balances of loans, with a maximum of \$600 million in principal balances of loans. We may cancel the agreement at any time at will; however, if we elect to cancel at any time during the first three years of the agreement, we will be charged a variable termination fee.

#### Key Factors Affecting Our Business

##### Macro-economic conditions

Our business is affected by national, regional and local economic conditions, as well as the perception of those conditions and future economic prospects. The significant macro-economic factors that impact our business are: the U.S. and global economic landscapes, unemployment rates, the housing markets and interest rates. The U.S. economy, as measured by the real gross domestic product ("GDP"), expanded 2.4% in the year ended December 31, 2014, driven by gains in personal consumption, non-residential investment, and inventory investment, with growth in the fourth quarter of 2.6%. This expansion followed considerable improvement in the economic landscape in the United States in 2013, with GDP growth of 2.2%. We currently expect that U.S. GDP growth in 2015 may be challenged by a stronger dollar and weak international growth. The Euro area economy ("EU18") expanded 0.3% in the year ended December 31, 2014, after having emerged from recession in the second half of 2013. Concerns of deflation and less favorable financial condition added to fears of a weaker recovery in Europe. In response, on January 22, 2015, the European Central Bank announced a new quantitative easing plan that includes the purchasing of €60 billion of assets per month, at least through September 2016, contributing to the low domestic rate environment. The U.S. unemployment rate dropped to 5.6% at December 31, 2014 from 6.7% at December 31, 2013. The overall improvement was partially driven by a decrease in the labor force participation rate, which declined to its lowest level in over 35 years. U.S. job growth has been a key support to GDP growth, with the economy adding three million jobs in 2014. After a pause in the first quarter of 2014, and a recovery through the second quarter, the housing market moved sideways in the fourth quarter of 2014, as demonstrated by a trendline in new and existing home sales as well as flat to modestly declining prices.

The Federal Reserve Board maintained very accommodative monetary policy conditions during 2014, continuing to effectively target a zero federal funds rate at the short end of the yield curve, and through its quantitative easing programs, purchasing Treasury and agency mortgage-backed securities in the intermediate and long end of the yield curve. The Federal Reserve ended its quantitative easing purchases on October 29, 2014. Interest rates remain relatively low. See "—Interest rates" below for further discussion of the impact of interest rates on our results.

##### Credit trends

Credit trends continued to improve in 2014 as evidenced by a continued reduction in both net charge-offs and nonperforming loans. Net charge-offs of \$323 million, decreased \$178 million, or 36%, from \$501 million in 2013. Annualized net charge-offs as a percentage of total average loans improved to 0.36% in 2014, compared to 0.59% in 2013. We currently expect overall charge-off rates to increase marginally in 2015 and 2016 as commercial recovery opportunities dissipate, home prices stabilize and non-core portfolios continue to decrease.

##### Interest rates

Net interest income is our largest source of revenue and is the difference between the interest earned on interest-earning assets (usually loans and investment securities) and the interest expense incurred in connection with

interest-bearing liabilities (usually deposits and borrowings). The level of net interest income is primarily a function of the average balance of interest-earning assets, the average balance of interest-bearing liabilities and the spread between the contractual yield on such assets and the contractual cost of such liabilities. These factors are influenced by both the pricing and mix of interest-earning assets and interest-bearing liabilities which, in turn, are impacted by external factors such as local economic conditions, competition for loans and deposits, the monetary policy of the Federal Reserve Board and market interest rates. For further discussion, refer to “—Risk Governance” and “—Market Risk — Non-Trading Risk.”

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The cost of our deposits and short-term wholesale borrowings is largely based on short-term interest rates, which are primarily driven by the Federal Reserve Board's actions. However, the yields generated by our loans and securities are typically driven by short-term and long-term interest rates, which are set by the market or, at times, by the Federal Reserve Board's actions. The level of net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. In 2013 and 2014, short-term and long-term interest rates remained at very low levels by historical standards, with many benchmark rates, such as the federal funds rate and one- and three-month LIBOR, near zero. Further declines in the yield curve or a decline in longer-term yields relative to short-term yields (a flatter yield curve) would have an adverse impact on our net interest margin and net interest income.

In 2013 and 2014, the Federal Reserve Board maintained a highly accommodative monetary policy, and indicated that this policy would remain in effect for a considerable time after its asset purchase program ended on October 29, 2014 and the economic recovery strengthens in the United States. As of December 31, 2014, the Federal Reserve had ended its asset purchases of Treasury securities and agency mortgage-backed securities. However, until further notice, the Federal Reserve will continue to re-invest runoff from its \$1.7 trillion mortgage-backed portfolio.

#### Regulatory trends

We are subject to extensive regulation and supervision, which continue to evolve as the legal and regulatory framework governing our operations continues to change. The current operating environment also has heightened regulatory expectations around many regulations including consumer compliance, the Bank Secrecy Act, and anti-money laundering compliance and increased internal audit activities. As a result of these heightened expectations, we expect to incur additional costs for additional compliance personnel or professional fees associated with advisors and consultants.

#### Dodd-Frank regulation

As described under "Regulation and Supervision" in Part I, Item 1 — Business, included elsewhere in this report, we are subject to a variety of laws and regulations, including the Dodd-Frank Act. The Dodd-Frank Act is complex, and many aspects of the Act are subject to final rulemaking that will take effect over several years. The Dodd-Frank Act will continue to impact our earnings through fee reductions, higher costs and imposition of new restrictions on us. The Dodd-Frank Act may also continue to have a material adverse impact on the value of certain assets and liabilities held on our balance sheet. The ultimate impact of the Dodd-Frank Act on our business will depend on regulatory interpretation and rulemaking as well as the success of any of our actions to mitigate the negative impacts of certain provisions. Key parts of the Dodd-Frank Act that specifically impact our business are the repeal of a previous prohibition against payment of interest on demand deposits, which became effective in July 2011, the introduction of a stress-testing and capital planning framework developed by the Federal Reserve Board, known as CCAR and the Dodd-Frank Act Stress Test ("DFAST") framework. The DFAST process projects net income, loan losses and capital ratios over a nine-quarter horizon under hypothetical, stressful macroeconomic and financial market scenarios developed by the Federal Reserve Board as well as certain mandated assumptions about capital distributions prescribed in the DFAST rule. During the third quarter of 2014, as part of our obligations under DFAST, we published the results of our mid-cycle severely adverse scenario. Consistent with the purpose of the DFAST process and the assumptions used in order to assess our likely performance during hypothetical economic conditions, the projected results under the DFAST severely adverse scenarios show severe negative impacts on earnings. However, these pro forma results should not be interpreted to be management expectations in light of the current economic and operating environment.

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

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

require us to obtain funding in other ways or limit potential future asset growth.

Comprehensive Capital Analysis and Review

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



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As part of CCAR, the Federal Reserve Board evaluates institutions' capital adequacy, internal capital adequacy assessment processes and their plans to make capital distributions, such as dividend payments or stock repurchases. In March 2014, the Federal Reserve Board objected on qualitative grounds to our capital plan submitted as part of the CCAR process. In addition to modifications we may be required to make in connection with our proposed capital distributions through the CCAR process, we may incur additional expenses in connection with the CCAR process that would affect our profitability and results of operations. The Federal Reserve Board is currently conducting a review of the capital plans submitted by us and other large bank holding companies in January 2015. The levels at which we will be able to declare dividends and repurchase shares of our common stock after March 2015 will depend on the Federal Reserve Board's qualitative and quantitative assessment of our capital plan and our projected performance under the stress scenarios. The Federal Reserve announced on February 12, 2015 that results from the latest supervisory stress tests conducted as part of the Dodd-Frank Act for large bank holding companies supervised by the Federal Reserve will be released on March 5, 2015 and the related results from the CCAR will be released on March 11, 2015.

Basel III final rules applicable to us and our banking subsidiaries

In July 2013, the Federal Reserve Board, OCC, and FDIC issued the U.S. Basel III final rules. The final rules implements the Basel III capital framework and certain provisions of the Dodd-Frank Act, including the Collins Amendment. Certain aspects of the final rules, such as the new minimum capital ratios, became effective on January 1, 2015. In order to comply with the new capital requirements, we established capital ratio targets that meet or exceed U.S. regulatory expectations under fully phased-in Basel III rules, and as a result our capital requirements were increased.

#### HELOC Payment Shock

Recent attention has been given by regulators, rating agencies, and the general press regarding the potential for increased exposure to credit losses associated with HELOCs that were originated during the period of rapid home price appreciation between 2003 and 2007. Industrywide, many of the HELOCs originated during this timeframe were structured with an extended interest-only payment period followed by a requirement to convert to a higher payment amount that would begin fully amortizing both principal and interest beginning at a certain date in the future. As of December 31, 2014, approximately 29% of our \$16.0 billion HELOC portfolio, or \$4.6 billion in drawn balances, and \$3.8 billion in undrawn balances, were subject to a payment reset or balloon payment between January 1, 2015 and December 31, 2017, including \$245 million in balloon balances where full payment is due at the end of a ten-year interest only draw period.

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

As of December 31, 2014, for the \$898 million of our HELOC portfolio that was originally structured with a reset period in 2014, 93.7% of the balances were refinanced, paid off or were current on payments, 4.9% were past due and 1.4% had been charged off. As of December 31, 2014, for the \$668 million of our HELOC portfolio that was originally structured with a reset period in 2013, 93.2% of the balances had been refinanced, paid off or were current on payments, 3.4% were past due and 3.4% had been charged off. A total of \$1.4 billion in balances are structured with a reset period in 2015. Factors that affect our future expectations for charge-off risk for the portion of our HELOC portfolio subject to reset periods in the future include improved loan-to-value ratios resulting from continued home price appreciation, stable portfolio credit score profiles and more robust loss mitigation efforts.

#### Factors Affecting Comparability of Our Results

##### Goodwill

During the 19-year period from 1988 to 2007, we completed a series of more than 25 acquisitions of other financial institutions and financial assets and liabilities. We accounted for these types of business combinations using the purchase method of accounting. Under this accounting method, the acquired company's net assets are recorded at fair value at the date of acquisition, and the difference between the purchase price and the fair value of the net assets acquired is recorded as goodwill.

Under relevant accounting guidance, we are required to review goodwill for impairment annually, or more frequently if events or circumstances indicate that the fair value of any of our business units might be less than its carrying value. The valuation of goodwill is dependent on forward-looking expectations related to the performance of the U.S. economy and our associated financial performance.

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The prolonged delay in the full recovery of the U.S. economy, and the impact of that delay on our earnings expectations, prompted us to record a \$4.4 billion pre-tax (\$4.1 billion after-tax) goodwill impairment as of June 30, 2013 related to our Consumer Banking reporting unit. For segment reporting purposes, the impairment charge is reflected in Other.

Although the U.S. economy had at the time demonstrated signs of recovery, notably improvements in unemployment and housing, the pace and extent of recovery in these indicators, as well as in overall gross domestic product, lagged behind previous expectations. The impact of the slow recovery was most evident in Consumer Banking. The forecasted lower economic growth for the United States, coupled with increasing costs of complying with the new regulatory framework in the financial industry, resulted in a deceleration of expected growth for Consumer Banking's future income, which resulted in our recording of a goodwill impairment charge during the second quarter of 2013. We have recorded goodwill impairment charges in the past, most recently in 2013, and any further impairment to our goodwill could materially affect our results in any given period. As of both December 31, 2014 and 2013, we had a carrying value of goodwill of \$6.9 billion. For additional information regarding our goodwill impairment testing, see Note 1 "Significant Accounting Policies" and Note 8 "Goodwill" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Investment in our business

We regularly incur expenses associated with investments in our infrastructure, and, from 2010 to 2014, we invested more than \$1.3 billion in infrastructure and technology, and plan to invest an additional \$280 million in 2015 and about \$170 million in 2016. These investments, which are designed to lower our costs and improve our customer experience, include significant programs to enhance our resiliency, upgrade customer-facing technology and streamline operations. Recent significant investments included the 2013 launch of our new teller system, new commercial loan platform and new auto loan platform and the 2013 upgrade of the majority of our ATM network, including equipping more than 1,450 ATMs with advanced deposit-taking functionality as well as additional investment in our Treasury Services platform. These investments also involved spending to prepare for the planned rollout of our new mortgage platform. We expect that these investments will increase our long-term overall efficiency and add to our capacity to increase revenue.

Operating expenses to operate as a fully independent public company

As part of our transition to a stand-alone company, we expect to incur one-time expenditures of approximately \$55 million over the course of 2014 to 2016, including capitalized costs of \$18 million, as well as ongoing incremental expenses of approximately \$34 million per year, which were substantially reflected in our run-rate at the end of 2014. We expect these ongoing costs will include higher local charges associated with exiting worldwide vendor relationships and incremental expenses to support information technology, compliance, corporate governance, regulatory, financial and risk infrastructure that are necessary to enable us to operate as a fully stand-alone public company.

Principal Components of Operations and Key Performance Metrics Used by Management

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

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

Net interest income

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

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

Noninterest income

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

Total revenue

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

Provision for credit losses

The provision for credit losses is the amount of expense that, based on our judgment, is required to maintain the allowance for credit losses at an amount that reflects probable losses inherent in the loan portfolio at the balance sheet date and that, in management's judgment, is appropriate under relevant accounting guidance. The provision for credit losses includes the provision for loan and lease losses as well as the provision for unfunded commitments. The determination of the amount of the allowance is complex and involves a high degree of judgment and subjectivity. For additional information regarding the provision for credit losses, see "—Critical Accounting Estimates—Allowance for Credit Losses," and Note 1 "Significant Accounting Policies" 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 elsewhere in this report.

Noninterest expense

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

Net income (loss)

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

Loans and leases

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

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

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

Mortgage loans held for sale are carried at fair value. As of December 31, 2013, other loans held for sale primarily include loans relating to the Chicago Divestiture and were carried at the lower of cost or fair value.

#### Securities

Our securities portfolio is managed to seek return while maintaining prudent levels of quality, market risk and liquidity. Investments in debt and equity securities are carried in four portfolios: available for sale, held to maturity, trading account assets and other investment securities. We determine the appropriate classification at the time of purchase. Securities in our available-for-sale portfolio will be held for indefinite periods of time and may be sold in response to changes in interest rates, changes in

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prepayment risk or other factors relevant to our asset and liability strategy. Securities in our available-for-sale portfolio are carried at fair value, with unrealized gains and losses reported in other comprehensive income, as a separate component of stockholders' equity, net of taxes. Securities are classified as held to maturity because we have the ability and intent to hold the securities to maturity, and are carried at amortized cost. Debt and equity securities that are bought and held principally for the purpose of being sold in the near term are classified as trading account assets and are carried at fair value. Realized and unrealized gains and losses on such assets are reported in noninterest income. Other investment securities are comprised mainly of FHLB and Federal Reserve Bank stock, which are carried at cost.

#### Allowance for credit losses

Our estimate of probable losses in the loan and lease portfolios is recorded in the allowance for loan and lease losses and the reserve for unfunded lending commitments. Together these are referred to as the allowance for credit losses. We evaluate the adequacy of the allowance for credit losses using the following ratios: allowance for loan and lease losses as a percentage of total loans and leases; allowance for loan and lease losses as a percentage of nonperforming loans and leases; and nonperforming loans and leases as a percentage of total loans and leases. For additional information, see “—Critical Accounting Estimates — Allowance for Credit Losses,” and Note 1 “Significant Accounting Policies” 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 elsewhere in this report.

#### Deposits

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

#### Borrowed funds

As of December 31, 2014, our total short-term borrowed funds included federal funds purchased, securities sold under agreement to repurchase and other short-term borrowed funds. As of December 31, 2014, our long-term borrowed funds included subordinated debt, unsecured notes, Federal Home loan advances and other long-term borrowed funds. For additional information, see “—Analysis of Financial Condition— Borrowed Funds,” and Note 11 “Borrowed Funds” to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

#### Derivatives

In prior years, we used pay-fixed interest rate swaps to synthetically lengthen liabilities, offsetting duration in fixed-rate assets. In 2008, we determined that these swaps were no longer needed and have elected to terminate them or allow them to runoff.

During the fourth quarter of 2014, we entered into an interest rate swap agreement to manage the interest rate exposure on our medium term fixed-rate borrowings. This agreement involves the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the life of the agreement.

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

We also sell interest rate swaps and foreign exchange forwards to commercial customers. Offsetting swap and forward agreements are simultaneously transacted to minimize our market risk associated with the customer derivative products. The assets and liabilities recorded for derivatives not designated as hedges reflect the market value of these transactions. For additional information, see “—Analysis of Financial Condition—Derivatives,” and Note 15 “Derivatives” to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data,

included elsewhere in this report.

**Key Performance Metrics and Non-GAAP Financial Measures**

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

• Return on average common equity, which we define as net income (loss) divided by average common equity;

• Return on average tangible common equity, which we define as net income (loss) 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 (loss) divided by average total assets;



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Return on average total tangible assets, which we define as net income (loss) divided by average total assets excluding average goodwill (net of related deferred tax liability), and average other intangibles;

Efficiency ratio, which we define as the ratio of our total noninterest expense to the sum of net interest income and total noninterest income. We measure our efficiency ratio to evaluate the efficiency of our operations as it helps us monitor how costs are changing compared to our income. A decrease in our efficiency ratio represents improvement; and

Net interest margin, which we calculate by dividing annualized net interest income for the period by average total interest-earning assets, is a key measure that we use to evaluate our net interest income.

Certain of the above financial measures, including return on average tangible common equity, return on average total tangible assets and the efficiency ratio are not recognized under GAAP. We also present noninterest expense, net income (loss), return on average total tangible assets, return on average tangible common equity, return on average common equity, return on average total assets, efficiency ratio, and net income per average common share (basic and diluted), excluding the 2013 \$4.4 billion pre-tax (\$4.1 billion after-tax) goodwill impairment charge. In addition, we present net income (loss) and return on average tangible common equity, net of goodwill impairment, restructuring charges and special items for the years ended December 31, 2014 and 2013. 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 goodwill impairment, restructuring charges and special items in any period do not reflect the operational performance of the business in that period and, accordingly, it is useful to consider these line items with and without goodwill impairment, restructuring charges and special items. We believe this presentation also increases comparability of period-to-period results.

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

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

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

(dollars in millions, except per share amounts)	Ref.	As of and for the Year Ended December 31,					
		2014	2013	2012	2011	2010	
Noninterest expense, excluding goodwill impairment:							
Noninterest expense (GAAP)	A	\$3,392	\$7,679	\$3,457	\$3,371	\$3,483	
Less: Goodwill impairment (GAAP)		—	4,435	—	—	—	
Noninterest expense, excluding goodwill impairment (non-GAAP)	B	\$3,392	\$3,244	\$3,457	\$3,371	\$3,483	
Net income (loss), excluding goodwill impairment:							
Net income (loss) (GAAP)	C	\$865	(\$3,426 )	\$643	\$506	\$11	
Add: Goodwill impairment, net of income tax benefit (GAAP)		—	4,080	—	—	—	
Net income, excluding goodwill impairment (non-GAAP)	D	\$865	\$654	\$643	\$506	\$11	
Return on average common equity, excluding goodwill impairment:							
Average common equity (GAAP)	E	\$19,399	\$21,834	\$23,938	\$23,137	\$22,425	
Return on average common equity, excluding goodwill impairment (non-GAAP)	D/E	4.46	% 3.00	% 2.69	% 2.19	% 0.05	%
Return on average tangible common equity, excluding goodwill impairment:							
Average common equity (GAAP)	E	\$19,399	\$21,834	\$23,938	\$23,137	\$22,425	
Less: Average goodwill (GAAP)		6,876	9,063	11,311	11,311	11,674	
Less: Average other intangibles (GAAP)		7	9	12	15	19	
Add: Average deferred tax liabilities related to goodwill (GAAP)		377	459	617	295	27	
Average tangible common equity (non-GAAP)	F	\$12,893	\$13,221	\$13,232	\$12,106	\$10,759	
Return on average tangible common equity (non-GAAP)	C/F	6.71	% (25.91 %)	% 4.86	% 4.18	% 0.11	%
Return on average tangible common equity, excluding goodwill impairment (non-GAAP)	D/F	6.71	% 4.95	% 4.86	% 4.18	% 0.11	%

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		As of and for the Year Ended December 31,							
(dollars in millions, except per share amounts)		Ref.	2014	2013	2012	2011	2010		
Return on average total assets, excluding goodwill impairment:									
Average total assets (GAAP)	G		\$127,624	\$120,866	\$127,666	\$128,344	\$138,253		
Return on average total assets, excluding goodwill impairment (non-GAAP)	D/G		0.68	% 0.54	% 0.50	% 0.39	% 0.01	%	%
Return on average total tangible assets, excluding goodwill impairment:									
Average total assets (GAAP)	G		\$127,624	\$120,866	\$127,666	\$128,344	\$138,253		
Less: Average goodwill (GAAP)			6,876	9,063	11,311	11,311	11,674		
Less: Average other intangibles (GAAP)			7	9	12	15	19		
Add: Average deferred tax liabilities related to goodwill (GAAP)			377	459	617	295	27		
Average tangible assets (non-GAAP)	H		\$121,118	\$112,253	\$116,960	\$117,313	\$126,587		
Return on average total tangible assets (non-GAAP)	C/H		0.71	% (3.05 %)	0.55	% 0.43	% 0.01	%	%
Return on average total tangible assets, excluding goodwill impairment (non-GAAP) <sup>(1)</sup>	D/H		0.71	% 0.58	% 0.55	% 0.43	% 0.01	%	%
Efficiency ratio, excluding goodwill impairment:									
Net interest income (GAAP)			\$3,301	\$3,058	\$3,227	\$3,320	\$3,345		
Noninterest income (GAAP)			1,678	1,632	1,667	1,711	1,733		
Total revenue (GAAP)	I		\$4,979	\$4,690	\$4,894	\$5,031	\$5,078		
Efficiency ratio (non-GAAP)	A/I		68.12	% 163.73	% 70.64	% 67.00	% 68.59	%	%
Efficiency ratio, excluding goodwill impairment (non-GAAP)	B/I		68.12	% 69.17	% 70.64	% 67.00	% 68.59	%	%
Net income per average common share-basic and diluted, excluding goodwill impairment:									
Average common shares outstanding - basic (GAAP)	J		556,674,146	559,998,324	559,998,324	559,998,324	559,998,324		
Average common shares outstanding - diluted (GAAP)	K		557,724,936	559,998,324	559,998,324	559,998,324	559,998,324		
Net income (loss) applicable to common stockholders (GAAP)	L		\$865	(\$3,426 )	\$643	\$506	\$11		
Add: Goodwill impairment, net of income tax benefit (GAAP)			—	4,080	—	—	—		
Net income applicable to common stockholders, excluding goodwill impairment (non-GAAP)	M		\$865	\$654	\$643	\$506	\$11		
Net income per average common share-basic, excluding goodwill impairment (non-GAAP)	M/J		1.55	1.17	1.15	0.90	0.02		

Net income per average common share-diluted, excluding goodwill impairment (non-GAAP)	M/K	1.55	1.17	1.15	0.90	0.02
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(dollars in millions, except per share amounts)	Ref.	As of and for the Year Ended December 31,	
		2014	2013
Pro forma Basel III common equity Tier 1 capital ratio:			
Tier 1 risk-based common capital (regulatory)		\$13,173	\$13,301
Less: Change in DTA and other threshold deductions (GAAP)		(6	) 6
Basel III common equity Tier 1 (non-GAAP)	N	\$13,179	\$13,295
Risk-weighted assets (regulatory general risk weight approach)		\$105,964	\$98,634
Add: Net change in credit and other risk-weighted assets (regulatory)		2,882	2,687
Basel III standardized approach risk-weighted assets (non-GAAP)	O	\$108,846	\$101,321
Pro forma Basel III common equity Tier 1 capital ratio (non-GAAP)	N/O	12.1	% 13.1 %
Pro forma Basel III Tier 1 capital ratio:			
Basel III common equity Tier 1 (non-GAAP)	N	\$13,179	\$13,295
Add: Trust preferred and minority interest (GAAP)		—	—
Basel III Tier 1 capital (non-GAAP)	P	\$13,179	\$13,295
Pro forma Basel III Tier 1 capital ratio (non-GAAP)	P/O	12.1	% 13.1 %
Pro forma Basel III total capital ratio:			
Total Tier 2 common capital (regulatory)		\$3,608	\$2,584
Add: Excess allowance for loan and lease losses (regulatory)		—	27
Less: Reserves exceeding 1.25% of risk-weighted assets (regulatory)		—	—
Basel III common equity Tier 2 (non-GAAP)	Q	\$3,608	\$2,611
Pro forma Basel III total capital (non-GAAP)	P+Q	\$16,787	\$15,906
Pro forma Basel III total capital ratio (non-GAAP)	(P+Q)/O	15.4	% 15.7 %
Pro forma Basel III leverage ratio:			
Quarterly average assets (GAAP)		\$130,629	\$120,705
Less: Goodwill (GAAP)		6,876	6,876
Less: Restricted core capital elements (regulatory) <sup>(1)</sup>		11	17
Add: Deferred tax liability related to goodwill (GAAP)		420	351
Add: Other comprehensive income pension adjustments (GAAP)		377	259
Basel III adjusted average assets (non-GAAP)	R	\$124,539	\$114,422
Pro forma leverage ratio (non-GAAP)	P/R	10.6	% 11.6 %

<sup>(1)</sup> Restricted core capital elements include other intangibles, intangible mortgage servicing assets, and disallowed mortgage servicing assets.

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(dollars in millions)	Ref.	Year Ended December 31,	
		2014	2013
Noninterest expense excluding goodwill impairment, restructuring charges and special items:			
Noninterest expense (GAAP)	A	\$3,392	\$7,679
Less: Goodwill impairment (GAAP)		—	4,435
Less: Restructuring charges (GAAP)		114	26
Less: Special items <sup>(2)</sup>		55	—
Noninterest expense, excluding goodwill impairment, restructuring charges and special items (non-GAAP)	S	\$3,223	\$3,218
Net income, excluding goodwill impairment, restructuring charges and special items:			
Net income (loss) (GAAP)	C	\$865	(\$3,426 )
Add: Goodwill impairment (GAAP)		—	4,080
Add: Restructuring charges (GAAP)		72	17
Special items:			
Less: Net gain on the Chicago Divestiture (GAAP)		180	—
Add: Regulatory charges (GAAP)		22	—
Add: Separation expenses / IPO related (GAAP)		11	—
Net income, excluding goodwill impairment, restructuring charges and special items (non-GAAP)	T	\$790	\$671
Return on average tangible common equity, excluding goodwill impairment, restructuring charges and special items:			
Average common equity (GAAP)	E	19,399	21,834
Less: Average goodwill (GAAP)		6,876	9,063
Less: Average other intangibles (GAAP)		7	9
Add: Average deferred tax liabilities related to goodwill (GAAP)		377	459
Average tangible common equity (non-GAAP)	F	\$12,893	\$13,221
Return on average tangible common equity (non-GAAP)	C/F	6.71	% (25.91 %)
Return on average tangible common equity, excluding goodwill impairment, restructuring charges and special items (non-GAAP)	T/F	6.13	% 5.08 %

<sup>(2)</sup> Special items include the following: regulatory charges, separation items and IPO related expenses.

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(dollars in millions)	Ref.	As of and for the Year Ended December 31,									
		2014 Consumer Banking	Commercial Banking	Other	Consolidated	2013 Consumer Banking	Commercial Banking	Other	Consolidated	2012 Consumer Banking	Comm Banki
Net income (loss), excluding goodwill impairment:											
Net income (loss) (GAAP)	U	\$182	\$561	\$122	\$865	\$242	\$514	(\$4,182)	(\$3,426)	\$185	\$453
Add: Goodwill impairment, net of income tax benefit (GAAP)		—	—	—	—	—	—	4,080	4,080	—	—
Net income (loss), excluding goodwill impairment (non-GAAP)	V	\$182	\$561	\$122	\$865	\$242	\$514	(\$102)	\$654	\$185	\$453
Efficiency ratio:											
Total revenue (GAAP)	W	\$3,050	\$1,502	\$427	\$4,979	\$3,201	\$1,420	\$69	\$4,690	\$3,384	\$1,388
Noninterest expense (GAAP)	X	2,513	652	227	3,392	2,522	635	4,522	7,679	2,691	625
Less: Goodwill impairment (GAAP)		—	—	—	—	—	—	4,435	4,435	—	—
Noninterest expense, excluding goodwill impairment (non-GAAP)	Y	\$2,513	\$652	\$227	\$3,392	\$2,522	\$635	\$87	\$3,244	\$2,691	\$625
Efficiency ratio (non-GAAP)	X/W	82.39	%43.37	%NM	68.12	%78.76	%44.66	%NM	163.73	%79.45	%45.22
Efficiency ratio, excluding goodwill impairment (non-GAAP)	Y/W	82.39	%43.37	%NM	68.12	%78.76	%44.66	%NM	69.17	%79.45	%45.22
Return on average total tangible assets:	Z	\$48,939	\$38,483	\$40,202	\$127,624	\$46,465	\$35,229	\$39,172	\$120,866	\$47,824	\$33,471

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Average total assets (GAAP)											
Less: Average goodwill (GAAP)			6,876	6,876				9,063	9,063		
Less: Average other intangibles (GAAP)			7	7				9	9		
Add: Average deferred tax liabilities related to goodwill (GAAP)			377	377				459	459		
Average total tangible assets (non-GAAP)	AA	\$48,939	\$38,483	\$33,696	\$121,118	\$46,465	\$35,229	\$30,559	\$112,253	\$47,824	\$33,471
Return on average total tangible assets (non-GAAP)	U/AA	0.37	%1.46	%NM	0.71	%0.52	%1.46	%NM	(3.05	%)0.39	%1.35
Return on average total tangible assets, excluding goodwill impairment (non-GAAP)	V/AA	0.37	%1.46	%NM	0.71	%0.52	%1.46	%NM	0.58	%0.39	%1.35
Return on average tangible common equity:											
Average common equity (GAAP) <sup>(3)</sup>	BB	\$4,665	\$4,174	\$10,560	\$19,399	\$4,395	\$3,897	\$13,542	\$21,834	\$3,813	\$3,620
Less: Average goodwill (GAAP)				6,876	6,876			9,063	9,063		
Less: Average other intangibles (GAAP)				7	7			9	9		
Add: Average deferred tax liabilities related to goodwill (GAAP)				377	377			459	459		
	CC	\$4,665	\$4,174	\$4,054	\$12,893	\$4,395	\$3,897	\$4,929	\$13,221	\$3,813	\$3,620



Average  
tangible  
common equity  
(non-GAAP)<sup>(3)</sup>

Return on

average

tangible

common equity

(non-GAAP)<sup>(3)</sup>

Return on

average

tangible

common equity,

excluding

goodwill

impairment

(non-GAAP)<sup>(3)</sup>

U/CC	3.90	% 13.43	% NM	6.71	% 5.48	% 13.20	% NM	(25.91	%) 4.89	% 12.45
V/CC	3.90	% 13.43	% NM	6.71	% 5.48	% 13.20	% NM	4.95	% 4.89	% 12.45

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

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Results of Operations — Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Highlights

For the year ended December 31, 2014:

net income of \$865 million increased \$4.3 billion compared to a loss of \$3.4 billion in 2013;

net income included a net \$180 million after-tax gain related to the Chicago Divestiture and \$105 million after-tax restructuring charges and special noninterest expense items largely related to our separation from RBS Group and ongoing efforts to improve processes and enhance efficiencies across the organization. 2013 included an after-tax goodwill impairment charge of \$4.1 billion. Excluding the Chicago gain, restructuring charges and special items and the goodwill impairment charge, net income increased \$119 million, or 18%, to \$790 million, from \$671 million in 2013;

net interest income of \$3.3 billion increased \$243 million, or 8%, from \$3.1 billion in 2013, largely reflecting growth in investment securities and loan portfolios, and a reduction in pay-fixed swap costs and deposit costs as we continued to reduce our reliance on higher cost certificate of deposit and money market deposits. These results were partially offset by the impact of declining loan yields given the relatively persistent low-rate environment and higher long-term borrowing costs;

net interest margin of 2.83%, compared to 2.85% in 2013, remained relatively stable as the impact of continued pressure on commercial and retail loan yields and higher long-term borrowing costs were partially offset by a reduction in pay-fixed swap costs and deposit costs;

noninterest income of \$1.7 billion included a \$288 million pre-tax gain on the Chicago Divestiture, and increased \$46 million, or 3%, to \$1.7 billion, compared to \$1.6 billion in 2013. Excluding the gain, noninterest income decreased \$242 million, or 15%, driven by the effect of a \$116 million reduction in net securities gains, lower mortgage banking fees, and lower service charges and fees, which were partially offset by growth in trust and investment services fees and capital markets fees;

noninterest expense of \$3.4 billion decreased \$4.3 billion, or 56%, compared to \$7.7 billion in 2013, which included a pre-tax \$4.4 billion goodwill impairment charge. Results in 2014 included \$169 million in pre-tax restructuring charges and special items compared with \$26 million in 2013. Excluding the goodwill impairment and restructuring charges and special items, noninterest expense remained relatively stable;

provision for credit losses totaled \$319 million and decreased \$160 million, or 33%, from \$479 million in 2013.

Results in 2014 included a net provision release of \$4 million compared with a \$22 million release in 2013;

our return on average tangible common equity ratio improved to 6.71%, from (25.91%) in 2013. Excluding the impact of the goodwill impairment, restructuring charges and special items mentioned above, our return on average tangible common equity improved to 6.13% from 5.08% in 2013;

average loans and leases of \$89.0 billion increased \$3.6 billion, or 4%, from \$85.4 billion in 2013, due to growth in commercial loans, residential mortgages and auto loans, which more than offset the reduction in home equity loans and lines of credit;

average interest-bearing deposits of \$64.4 billion decreased \$3.5 billion, or 5%, from \$67.9 billion in 2013, primarily driven by a \$2.0 billion decrease associated with the Chicago Divestiture as well as a reduction of higher cost money market and term deposits; and

net income per average common share, basic and diluted, was \$1.55 in 2014, compared to a loss of \$6.12 in 2013, which included a goodwill impairment charge of \$7.29 per share.

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Net Income (Loss)

Net income totaled \$865 million in 2014, and included \$75 million of after-tax net restructuring charges and special items related to our separation from RBS Group, efforts to improve processes and enhance efficiencies across the organization, and the Chicago Divestiture. These results increased \$4.3 billion from 2013, which included a \$4.1 billion after-tax goodwill impairment charge. Excluding the gain, restructuring charges and special items and impairment charge noted above, 2014 net income increased \$119 million, or 18%, from 2013, as the benefit of lower provision for credit losses and higher net interest income was partially offset by the effect of lower noninterest income and increased noninterest expense.

The special items and restructuring charges in 2014 included a \$288 million pre-tax gain (\$180 million after tax) on the sale of the Chicago-area deposits, \$17 million of pre-tax expenses (\$11 million after tax) related to the Chicago Divestiture, \$97 million of pre-tax expenses (\$61 million after tax), related to our efficiency initiatives, \$20 million of pre-tax expenses (\$11 million after tax) related to our separation from RBS, and \$35 million of other pre-tax expenses (\$22 million after tax) related to regulatory initiatives. The restructuring charges in 2013 related to our implementation of a new branch image capture system on the teller line which automated several key processes within the branch network, and our decision to close certain branches, which resulted in lease termination costs and other fixed asset write-offs.

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

(dollars in millions)	Year Ended December			
	31, 2014	2013	Change	Percent
<b>Operating Data:</b>				
Net interest income	\$3,301	\$3,058	\$243	8 %
Noninterest income	1,678	1,632	46	3
Total revenue	4,979	4,690	289	6
Provision for credit losses	319	479	(160 )	(33 )
Noninterest expense	3,392	7,679	(4,287 )	(56 )
Noninterest expense, excluding goodwill impairment <sup>(1)</sup>	3,392	3,244	148	5
Noninterest expense, excluding goodwill impairment, restructuring charges and special items <sup>(1)</sup>	3,223	3,218	5	—
Income (loss) before income tax expense (benefit)	1,268	(3,468 )	4,736	137
Income tax expense (benefit)	403	(42 )	445	1,060
Net income (loss)	865	(3,426 )	4,291	125
Net income, excluding goodwill impairment <sup>(1)</sup>	865	654	211	32
Net income, excluding goodwill impairment, restructuring charges and special items <sup>(1)</sup>	790	671	119	18
Return on average tangible common equity <sup>(1)</sup>	6.71	% (25.91 %)	NM	—
Return on average tangible common equity, excluding goodwill impairment <sup>(1)</sup>	6.71	% 4.95 %	176	bps —
Return on average tangible common equity, excluding goodwill impairment, restructuring charges and special items <sup>(1)</sup>	6.13	% 5.08 %	105	bps —

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

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Net Interest Income

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

(dollars in millions)	Year Ended December 31,						Change	
	2014			2013			Average	Yields/
	Average	Income/	Yields/	Average	Income/	Yields/	Average	Yields/
	Balances	Expense	Rates	Balances	Expense	Rates	Balances	Rates
<b>Assets</b>								
Interest-bearing cash and due from banks and deposits in banks	\$2,113	\$5	0.22 %	\$2,278	\$11	0.46 %	(\$165 )	(24) bps
Taxable investment securities	24,319	619	2.55	19,062	477	2.50	5,257	5
Non-taxable investment securities	11	—	2.60	12	—	2.66	(1 )	(6)
Total investment securities	24,330	619	2.55	19,074	477	2.50	5,256	5
Commercial	29,993	900	2.96	28,654	900	3.10	1,339	(14)
Commercial real estate	7,158	183	2.52	6,568	178	2.67	590	(15)
Leases	3,776	103	2.73	3,463	105	3.05	313	(32)
Total commercial	40,927	1,186	2.86	38,685	1,183	3.02	2,242	(16)
Residential mortgages	10,729	425	3.96	9,104	360	3.96	1,625	—
Home equity loans	3,877	205	5.29	4,606	246	5.35	(729 )	(6)
Home equity lines of credit	15,552	450	2.89	16,337	463	2.83	(785 )	6
Home equity loans serviced by others <sup>(1)</sup>	1,352	91	6.75	1,724	115	6.65	(372 )	10
Home equity lines of credit serviced by others <sup>(1)</sup>	609	16	2.68	768	22	2.88	(159 )	(20)
Automobile	11,011	282	2.57	8,857	235	2.65	2,154	(8)
Student	2,148	102	4.74	2,202	95	4.30	(54 )	44
Credit cards	1,651	167	10.14	1,669	175	10.46	(18 )	(32)
Other retail	1,186	88	7.43	1,453	107	7.36	(267 )	7
Total retail	48,115	1,826	3.80	46,720	1,818	3.89	1,395	(9)
Total loans and leases	89,042	3,012	3.37	85,405	3,001	3.50	3,637	(13)
Loans held for sale	163	5	3.10	392	12	3.07	(229 )	3
Other loans held for sale	539	23	4.17	—	—	—	539	NM
Interest-earning assets	116,187	3,664	3.14	107,149	3,501	3.25	9,038	(11)
Allowance for loan and lease losses	(1,230 )			(1,219 )			(11 )	
Goodwill	6,876			9,063			(2,187 )	
Other noninterest-earning assets	5,791			5,873			(82 )	
Total noninterest-earning assets	11,437			13,717			(2,280 )	
Total assets	\$127,624			\$120,866			\$6,758	
<b>Liabilities and Stockholders' Equity</b>								
Checking with interest	\$14,507	\$12	0.08 %	\$14,096	\$8	0.06 %	\$411	2 bps
Money market and savings	39,579	77	0.19	42,575	105	0.25	(2,996 )	(6)
Term deposits	10,317	67	0.65	11,266	103	0.91	(949 )	(26)
Total interest-bearing deposits	64,403	156	0.24	67,937	216	0.32	(3,534 )	(8)
Interest-bearing deposits held for sale	1,960	4	0.22	—	—	—	1,960	22
Federal funds purchased and securities sold under agreements to repurchase <sup>(2)</sup>	5,699	32	0.55	2,400	192	7.89	3,299	NM
Other short-term borrowed funds	5,640	89	1.56	251	4	1.64	5,389	(8)

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Long-term borrowed funds	1,907	82	4.25	778	31	3.93	1,129	32
Total borrowed funds	13,246	203	1.51	3,429	227	6.53	9,817	NM
Total interest-bearing liabilities	79,609	363	0.45	71,366	443	0.61	8,243	(16)
Demand deposits	25,739			25,399			340	
Demand deposits held for sale	462			—			462	
Other liabilities	2,415			2,267			148	
Total liabilities	108,225			99,032			9,193	
Stockholders' equity	19,399			21,834			(2,435 )	
Total liabilities and stockholders' equity	\$127,624			\$120,866			\$6,758	
Interest rate spread			2.69			2.64		5
Net interest income		\$3,301			\$3,058			
Net interest margin			2.83 %			2.85 %		(2) bps
Memo: Total deposits (interest-bearing and demand)	\$92,564	\$160	0.17 %	\$93,336	\$216	0.23 %	(\$772 )	(6) bps

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

(2) Balances are net of certain short-term receivables associated with reverse repurchase agreements. Interest expense includes the full cost of the repurchase agreements and certain hedging costs. The rate on federal funds purchased is elevated due to the impact from pay-fixed interest rate swaps that are scheduled to runoff by the end of 2015. See “—Analysis of Financial Condition — December 31, 2014 Compared with December 31, 2013 — Derivatives” for further information.

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Net interest income of \$3.3 billion in 2014 increased \$243 million, or 8%, from \$3.1 billion in 2013 driven by growth in average interest-earning assets, a reduction in interest rate hedging costs, as well as lower deposit costs. These benefits were partially offset by the effect of declining loan yields and a continued shift in loan mix to lower yielding loans, increased borrowing costs related to our issuance of subordinated debt and the effect of the Chicago Divestiture. Average interest-earning assets of \$116.2 billion in 2014 increased \$9.0 billion from 2013 driven by a \$5.3 billion increase in the investment securities portfolio, a \$2.2 billion increase in commercial loans, a \$1.6 billion increase in residential mortgages, and a \$2.2 billion increase in automobile loans, partially offset by a \$2.0 billion decrease in home equity outstandings, a \$54 million reduction in student loans, and a \$267 million decrease in other retail loans. 2014 net interest margin of 2.83% remained broadly stable compared to 2.85% in 2013 despite continued pressure from the relatively persistent low interest-rate environment. Average interest-earning asset yields continued to decline at a pace that exceeded our ability to reduce our cost of interest-bearing deposits. 2014 average interest-earning asset yields of 3.14% declined 11 basis points from 3.25% in 2013, largely reflecting a 13 basis point decline in the loan and lease portfolio yield despite a five basis point improvement in the securities portfolio yield. The decline in loan and lease yields was driven by the effect of a reduction in higher-yielding consumer real estate secured outstandings. In addition, intense industry-wide competition for commercial loans continued to compress spreads on new originations and resulted in additional downward pressure on overall loan yields. Investment portfolio income of \$619 million for the year ended December 31, 2014 increased \$142 million, or 30%, compared to the year ended December 31, 2013.

Total interest-bearing deposit costs of \$156 million in 2014 decreased \$60 million, or 28%, from \$216 million in 2013 and reflected an eight basis point decrease in the rate paid on deposits to 0.24% from 0.32%. The cost of term deposits decreased to 0.65% in 2014 from 0.91% in 2013, while rates on money market and savings declined to 0.19% in 2014 from 0.25% in 2013. Due to the historically low interest rate environment, many deposit products have hit pricing floors at or near zero, limiting further rate reduction and thus compressing margins.

The total borrowed funds costs of \$203 million in 2014 declined \$24 million, or 11%, from \$227 million in 2013 driven by the benefit of a \$101 million reduction in pay-fixed swap costs which was partially offset by an increase in long-term borrowed funds costs largely related to our issuance of subordinated debt.

Total borrowed funds rates declined to 1.51% in 2014 from 6.53% in 2013. Within the federal funds purchased and securities sold under agreement category and other short-term borrowed funds categories, pay-fixed swap expense declined to \$99 million in 2014 from \$200 million in 2013. Excluding the impact of hedging costs, 2014 borrowed funds costs were 0.78% compared to 1.16% in 2013.

#### Noninterest Income

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

(dollars in millions)	Year Ended			
	December 31,		Change	Percent
	2014	2013		
Service charges and fees	\$574	\$640	(\$66 )	(10 %)
Card fees	233	234	(1 )	—
Mortgage banking fees	71	153	(82 )	(54 )
Trust and investment services fees	158	149	9	6
Foreign exchange and trade finance fees	95	97	(2 )	(2 )
Capital markets fees	91	53	38	72
Bank-owned life insurance income	49	50	(1 )	(2 )
Securities gains, net	28	144	(116 )	(81 )
Other income <sup>(1)</sup>	379	112	267	238
Noninterest income	\$1,678	\$1,632	\$46	3 %

<sup>(1)</sup> Includes net impairment losses on securities available for sale recognized in earnings and other income. Additionally, noninterest income for the year ended December 31, 2014 reflects a \$288 million pre-tax gain related to the Chicago Divestiture.

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Noninterest income of \$1.7 billion in 2014 increased \$46 million, or 3%, from \$1.6 billion in 2013, driven by a \$288 million pre-tax gain on the Chicago Divestiture, which was recorded in other income, and a \$38 million increase in capital markets fees, partially offset by a \$116 million decrease in net securities gains, an \$82 million decrease in mortgage banking fees, and a \$66 million decrease in service charges and fees. Mortgage banking fees reflected overall lower origination volume, the decision to hold more loans on-balance sheet, and were also negatively impacted by a reduction in the recovery of mortgage servicing rights valuations from the prior year. The decrease in service charges and fees are driven by lower personal overdraft fees resulting from a November 2013 change to our check-posting methodology.

Provision for Credit Losses

Provision for credit losses of \$319 million in 2014 decreased \$160 million from \$479 million in 2013, driven by a \$178 million reduction in net charge-offs. Additionally, while overall credit quality continued to improve in 2014, the rate of improvement slowed relative to 2013. As a result, 2014 provision for credit losses included a release of \$4 million from the allowance for credit losses (the amount by which net charge-offs exceeded the provision) compared with a release of \$22 million in 2013. The provision for loan and lease losses is the result of a detailed analysis performed to estimate an appropriate and adequate allowance for loan and lease losses (“ALLL”). The total provision for credit losses included the provision for loan and lease losses as well as the provision for unfunded commitments. Refer to “—Analysis of Financial Condition — Allowance for Credit Losses and Nonperforming Assets” for more information.

Noninterest Expense

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

(dollars in millions)	Year Ended			
	December 31,		Change	Percent
	2014	2013		%
Salaries and employee benefits	\$1,678	\$1,652	\$26	2
Outside services	420	360	60	17
Occupancy	326	327	(1)	—
Equipment expense	250	275	(25)	(9)
Amortization of software	145	102	43	42
Goodwill impairment	—	4,435	(4,435)	(100)
Other operating expense	573	528	45	9
Noninterest expense	\$3,392	\$7,679	(\$4,287)	(56)

Noninterest expense of \$3.4 billion in 2014 decreased \$4.3 billion from 2013, which included a \$4.4 billion pre-tax goodwill impairment charge. Our 2014 noninterest expense included \$169 million of pre-tax restructuring charges and special items largely related to our separation from RBS Group as well as ongoing efforts to improve processes and enhance efficiencies across the organization compared with \$26 million of restructuring charges and special items in 2013. The 2014 charge included \$78 million in outside services, \$44 million in salaries and employee benefits, \$16 million in occupancy, \$6 million in software, \$4 million in equipment and \$21 million in other operating expense. Excluding the restructuring charges and special items and the goodwill impairment, noninterest expense remained relatively stable, as the benefit of our efficiency initiatives helped offset investment in the business to drive future earnings growth as well as higher regulatory costs. See Note 21 “Exit Costs and Restructuring Reserves” to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Provision (Benefit) for Income Taxes

In 2014, we recorded income tax expense of \$403 million, compared to an income tax benefit of \$42 million in 2013. The effective tax rates for the years ended December 31, 2014 and 2013 were 31.8% and 1.2%, respectively. The



increase in the effective rate largely reflected the tax rate impact of the goodwill impairment charge taken in 2013. Goodwill not deductible for tax purposes accounted for 78.4% of the total goodwill impairment charge and generated a reduction of 35.1% in our effective tax rate for the year ended December 31, 2013.

Additionally, the effective income tax rate will be affected in future periods by the impact of the adoption of Accounting Standard Update No. 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects." We expect this change in accounting method to increase the 2015 effective income tax rate by approximately 2.4 percentage points; however this is not

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expected to have a material impact on our Consolidated Financial Statements. For further information, see Recent Accounting Pronouncements in Note 1 “Significant Accounting Policies” to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

At December 31, 2014, we reported a net deferred tax liability of \$493 million, compared to a \$199 million liability at December 31, 2013. The increase in the net deferred tax liability was attributable to the utilization of net operating loss and tax credit carryforwards of \$76 million (which decreased the deferred tax asset), a decrease in the tax effect on Other Comprehensive Income (“OCI”) of \$153 million (which also decreased the deferred tax asset) and an increase in the deferred tax liability related to temporary differences of \$65 million. For further discussion, see Note 14 “Income Taxes” to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

### Business Segments

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

(dollars in millions)	As of and for the Year Ended December 31, 2014			
	Consumer Banking	Commercial Banking	Other	(4) Consolidated
Net interest income	\$2,151	\$1,073	\$77	\$3,301
Noninterest income	899	429	350	1,678
Total revenue	3,050	1,502	427	4,979
Noninterest expense	2,513	652	227	3,392
Profit before provision for credit losses	537	850	200	1,587
Provision for credit losses	259	(6)	66	319
Income before income tax expense	278	856	134	1,268
Income tax expense	96	295	12	403
Net income	\$182	\$561	\$122	\$865
Loans and leases and loans held for sale (year-end) (1)	\$49,919	\$39,861	\$3,911	\$93,691
Average Balances:				
Total assets	\$48,939	\$38,483	\$40,202	\$127,624
Loans and leases and loans held for sale (1)	47,745	37,683	4,316	89,744
Deposits and deposits held for sale	68,214	19,838	4,513	92,565
Interest-earning assets	47,777	37,809	30,601	116,187
Key Metrics				
Net interest margin	4.50	% 2.84	% NM	2.83 %
Efficiency ratio (2)	82.39	43.37	NM	68.12
Average loans to average deposits ratio	69.99	189.96	NM	96.95
Return on average total tangible assets (2)	0.37	1.46	NM	0.71
Return on average tangible common equity (2) (3)	3.90	13.43	NM	6.71

(1) Loans held for sale refer to mortgage loans held for sale recorded in the Consumer Banking segment, as well as the loans relating to the Chicago Divestiture, which were recorded in both the Consumer Banking and Commercial Banking segments.

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

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

(4) Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, revenues, provision for credit losses and expenses not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see “—Analysis of Financial Condition — December 31, 2014 Compared with December 31, 2013 — Loans and Leases-Non-Core Assets.”

We operate our business through two operating segments: Consumer Banking and Commercial Banking. Segment results are derived from our business line profitability reporting systems by specifically attributing managed assets, liabilities, capital and

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their related revenues, provision for credit losses and expenses. Residual assets, liabilities, capital and their related revenues, provision for credit losses and expenses are attributed to Other.

Other includes our treasury function, securities portfolio, wholesale funding activities, goodwill and goodwill impairment, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to Consumer Banking or Commercial Banking. Other also includes our non-core assets. Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. The non-core portfolio totaled \$3.1 billion as of December 31, 2014, down 19% from December 31, 2013. The largest component of our non-core portfolio is our home equity products currently or formerly serviced by others portfolio.

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

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

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

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

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

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## Consumer Banking

(dollars in millions)	As of and for the Year Ended December 31,			
	2014	2013	Change	Percent
Net interest income	\$2,151	\$2,176	(\$25 )	(1 %)
Noninterest income	899	1,025	(126 )	(12 )
Total revenue	3,050	3,201	(151 )	(5 )
Noninterest expense	2,513	2,522	(9 )	—
Profit before provision for credit losses	537	679	(142 )	(21 )
Provision for credit losses	259	308	(49 )	(16 )
Income before income tax expense	278	371	(93 )	(25 )
Income tax expense	96	129	(33 )	(26 )
Net income	\$182	\$242	(\$60 )	(25 )
Loans and leases and loans held for sale (year-end) <sup>(1)</sup>	\$49,919	\$45,019	\$4,900	11
Average Balances:				
Total assets	\$48,939	\$46,465	\$2,474	5
Loans and leases and loans held for sale <sup>(1)</sup>	47,745	45,106	2,639	6
Deposits and deposits held for sale	68,214	72,158	(3,944 )	(5 )
Interest-earning assets	47,777	45,135	2,642	6 %
Key Metrics				
Net interest margin	4.50	% 4.82	% (32) bps	—
Efficiency ratio <sup>(2)</sup>	82.39	78.76	363 bps	—
Average loans to average deposits ratio	69.99	62.51	748 bps	—
Return on average total tangible assets <sup>(2)</sup>	0.37	0.52	(15) bps	—
Return on average tangible common equity <sup>(2) (3)</sup>	3.90	5.48	(158) bps	—

<sup>(1)</sup> Loans held for sale include mortgage loans held for sale and loans relating to the Chicago Divestiture.

<sup>(2)</sup> These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures.”

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

Consumer Banking segment net income of \$182 million in 2014 decreased \$60 million, or 25%, from \$242 million in 2013, as the benefit of a reduction in provision for credit losses was more than offset by lower revenue, driven by overall mortgage banking headwinds, and lower service charges and fee income.

Total revenue was \$3.1 billion in 2014, down \$151 million, or 5%, from \$3.2 billion in 2013. Net interest income of \$2.2 billion in 2014 remained broadly stable with the prior year, as the benefit of lower deposit costs and loan growth was more than offset by the effect of the relatively persistent low-rate environment and the Chicago Divestiture. Loan growth reflected higher residential mortgage and auto loan outstandings, partially offset by lower home equity outstandings. Noninterest income of \$899 million decreased \$126 million, or 12%, from \$1.0 billion in 2013, driven by lower mortgage banking fees, service charges and fees, and the impact of the Chicago Divestiture, partially offset

by growth in trust and investment services fees and a gain on sale of discontinued student loan portfolio.

Mortgage banking fees of \$71 million in 2014 decreased \$82 million, driven by overall lower origination volume and the decision to hold more loans on-balance sheet. Mortgage banking fees were also negatively impacted by a reduction in the recovery of mortgage servicing rights valuations from the prior year. Service charges and fees of \$416 million decreased \$58 million, or 12%, from 2013, driven by the impact of a change in check-posting order as well as the Chicago Divestiture. Results also reflected the benefit of growth in trust and investment services fees as well as a \$9 million gain on sale of student loans.

Noninterest expense of \$2.5 billion in 2014 remained relatively stable with the prior year as the benefit of our efficiency initiatives and the impact of the Chicago Divestiture were offset by continued investment in the business to drive future growth.

Provision for credit losses of \$259 million in 2014 decreased \$49 million, or 16%, from \$308 million in 2013, reflecting improved credit quality.

CITIZENS FINANCIAL GROUP, INC.  
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## Commercial Banking

(dollars in millions)	As of and for the Year Ended December 31,			
	2014	2013	Change	Percent
Net interest income	\$1,073	\$1,031	\$42	4 %
Noninterest income	429	389	40	10
Total revenue	1,502	1,420	82	6
Noninterest expense	652	635	17	3
Profit before provision for credit losses	850	785	65	8
Provision for credit losses	(6 )	(7 )	1	14
Income before income tax expense	856	792	64	8
Income tax expense	295	278	17	6
Net income	\$561	\$514	\$47	9
Loans and leases and loans held for sale (year-end) <sup>(1)</sup>	\$39,861	\$36,155	\$3,706	10
Average Balances:				
Total assets	\$38,483	\$35,229	\$3,254	9
Loans and leases and loans held for sale <sup>(1)</sup>	37,683	34,647	3,036	9
Deposits and deposits held for sale	19,838	17,516	2,322	13
Interest-earning assets	37,809	34,771	3,038	9 %
Key Metrics				
Net interest margin	2.84	% 2.97	% (13) bps	—
Efficiency ratio <sup>(2)</sup>	43.37	44.66	(129) bps	—
Average loans to average deposits ratio	189.96	197.80	(784) bps	—
Return on average total tangible assets <sup>(2)</sup>	1.46	1.46	—	—
Return on average tangible common equity <sup>(2) (3)</sup>	13.43	13.20	23 bps	—

<sup>(1)</sup> Loans held for sale include loans relating to the Chicago Divestiture.

<sup>(2)</sup> These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures.”

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

Commercial Banking net income of \$561 million in 2014 increased \$47 million, or 9%, from \$514 million in 2013, driven by an \$82 million increase in total revenue, partially offset by higher expenses and slightly lower credit net recoveries.

Net interest income of \$1.1 billion in 2014 increased \$42 million, or 4%, from \$1.0 billion in 2013, largely due to a \$3.0 billion increase in interest-earning assets and a \$2.3 billion increase in customer deposits which was partially offset by continued downward pressure on loan yields given the relatively persistent low-rate environment and increased industry-wide competition.

Noninterest income of \$429 million in 2014 increased \$40 million, or 10%, from \$389 million in 2013, as a \$51 million increase in leasing income and capital markets fees was partially offset by lower interest rate product, foreign

exchange and trade finance fees.

Noninterest expense of \$652 million in 2014 increased \$17 million from \$635 million in 2013.

Provision for credit losses in 2014 reflected a net recovery on prior period charge-offs of \$6 million compared with a net recovery of \$7 million in 2013.



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## Other

(dollars in millions)	As of and for the Year			
	Ended December 31,		Change	Percent
	2014	2013		
Net interest income (expense)	\$77	(\$149)	) \$226	152 %
Noninterest income	350	218	132	61
Total revenue	427	69	358	519
Noninterest expense	227	4,522	(4,295)	(95)
Profit (loss) before provision for credit losses	200	(4,453)	) 4,653	104
Provision for credit losses	66	178	(112)	(63)
Income (loss) before income tax expense (benefit)	134	(4,631)	) 4,765	103
Income tax expense (benefit)	12	(449)	) 461	103
Net income (loss)	\$122	(\$4,182)	) \$4,304	103
Loans and leases and loans held for sale (year-end)	\$3,911	\$5,939	(\$2,028)	(34)
Average Balances:				
Total assets	\$40,202	\$39,172	\$1,030	3
Loans and leases and loans held for sale	4,316	6,044	(1,728)	(29)
Deposits and deposits held for sale	4,513	3,662	851	23
Interest-earning assets	30,601	27,243	3,358	12 %

Other recorded net income of \$122 million in 2014 compared with a net loss of \$4.2 billion in 2013, which included an after-tax goodwill impairment charge of \$4.1 billion. Excluding the goodwill impairment, the net loss in 2013 was \$102 million. Net income in 2014 included a \$180 million after-tax gain related to the Chicago Divestiture, partially offset by \$105 million of after-tax restructuring charges and special items. Net loss in 2013 also included \$17 million of after-tax restructuring charges and special items. Excluding these items, net income increased \$132 million driven by higher net interest income as well as lower provision for credit losses, partially offset by lower noninterest income.

Net interest income in 2014 increased \$226 million to \$77 million compared to an expense of \$149 million in 2013. The increase was driven by the benefit of a \$5.1 billion increase in average investment securities, a reduction in interest rate swap costs, and an increase in residual net interest income related to funds transfer pricing, partially offset by higher wholesale funding costs, and a \$1.3 billion decrease in average non-core loan balances.

Noninterest income in 2014 increased \$132 million driven by the \$288 million pre-tax gain on the Chicago Divestiture. Excluding the gain, noninterest income decreased \$156 million driven by a \$116 million reduction in securities gains and higher net losses on low-income housing investments, which are more than offset by increased tax credits.

Noninterest expense in 2014 of \$227 million included \$169 million of pre-tax restructuring charges and special items and decreased \$4.3 billion from 2013, which included the \$4.4 billion pre-tax goodwill impairment charge, and \$26 million of pre-tax restructuring charges and special items. Excluding the goodwill impairment, restructuring charges and special items, noninterest expense decreased \$3 million largely reflecting lower costs related to the non-core loan portfolio, largely offset by higher employee incentive costs. For further information about these special items, including expected additional future costs, see Note 21 "Exit Costs and Restructuring Reserves" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

The provision for credit losses within Other mainly represents the residual change in the consolidated allowance for credit losses after attributing the respective net charge-offs to the Consumer Banking and Commercial Banking segments. It also includes net charge-offs related to the non-core portfolio. The provision for credit losses in 2014 decreased \$112 million to \$66 million compared to \$178 million in 2013, reflecting continued improvement in credit quality and decreased non-core net charge-offs of \$128 million. 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. In 2014, changes in these factors led to a net release of \$4 million in the allowance for credit losses compared with a net release of \$22 million in 2013. The provision also reflected an increase in overall credit exposure associated with growth in our loan portfolio.

Total assets as of December 31, 2014 included \$2.1 billion and \$4.7 billion of goodwill related to the Consumer Banking and Commercial Banking reporting units, respectively. For further information regarding the reconciliation of segment results to

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GAAP results, see Note 23 “Business Segments” to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Results of Operations — Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Net Income (Loss)

We reported a net loss of \$3.4 billion for the year ended December 31, 2013, after recording a goodwill impairment charge of \$4.1 billion after tax in the second quarter of 2013 and \$26 million (\$17 million after-tax) in restructuring charges. Excluding the goodwill impairment and restructuring charges above and a net \$158 million of pre-tax unusual items in 2012, net income decreased \$97 million, or 13%, from 2012, largely driven by the effect of the relatively persistent low interest rate environment on net interest income and a reduction in fee income, driven by continued pressure from regulatory changes and lower mortgage banking fees. Results also reflected increased provision for credit losses and lower noninterest expense, excluding goodwill impairment.

The restructuring charges in 2013 related to our implementation of a new branch image capture system on the teller line which automated several key processes within the branch network, and our decision to close certain branches, which resulted in lease termination costs and other fixed asset write-offs. Unusual expenses in 2012 included a \$138 million (\$87 million after tax) overdraft litigation settlement, a \$77 million (\$49 million after tax) settlement of defined benefit pension plan obligation to vested former employees, a \$25 million charge related to a state tax settlement and a \$23 million (\$15 million after tax) loss on sale of a commercial real estate portfolio, offset by a \$75 million (\$48 million after tax) gain on sale of our VISA, Inc. Class B shares and a net \$5 million (\$3 million after tax) reversal of prior restructuring charges.

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

(dollars in millions)	Year Ended December				
	31,	2013	2012	Change	Percent
Operating Data:					
Net interest income		\$3,058	\$3,227	(\$169 )	(5 %)
Noninterest income		1,632	1,667	(35 )	(2 )
Total revenue		4,690	4,894	(204 )	(4 )
Provision for credit losses		479	413	66	16
Noninterest expense		7,679	3,457	4,222	122
Noninterest expense, excluding goodwill impairment <sup>(1)</sup>		3,244	3,457	(213 )	(6 )
(Loss) income before income tax (benefit) expense		(3,468 )	1,024	(4,492 )	(439 )
Income tax (benefit) expense		(42 )	381	(423 )	(111 )
Net (loss) income		(3,426 )	643	(4,069 )	(633 )
Net income, excluding goodwill impairment <sup>(1)</sup>		654	643	11	2
Return on average tangible common equity <sup>(1)</sup>		(25.91 %)	4.86 %	NM	
Return on average tangible common equity, excluding goodwill impairment <sup>(1)</sup>		4.95 %	4.86 %	9	bps

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

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Net Interest Income

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

(dollars in millions)	Year Ended December 31,							Change	
	2013			2012			Average	Yields/	
	Average	Income/	Yields/	Average	Income/	Yields/	Average	Yields/	
	Balances	Expense	Rates	Balances	Expense	Rates	Balances	Rates	
<b>Assets</b>									
Interest-bearing cash and due from banks and deposits in banks	\$2,278	\$11	0.46 %	\$1,562	\$4	0.46 %	\$716	—	
Taxable investment securities	19,062	477	2.50	22,030	618	2.79	(2,968 )	(29)	
Non-taxable investment securities	12	—	2.66	40	2	4.32	(28 )	(166)	
Total investment securities	19,074	477	2.50	22,070	620	2.79	(2,996 )	(29)	
Commercial	28,654	900	3.10	27,273	849	3.07	1,381	3	
Commercial real estate	6,568	178	2.67	7,063	196	2.72	(495 )	(5)	
Leases	3,463	105	3.05	3,216	112	3.48	247	(43)	
Total commercial	38,685	1,183	3.02	37,552	1,157	3.04	1,133	(2)	
Residential mortgages	9,104	360	3.96	9,551	413	4.32	(447 )	(36)	
Home equity loans	4,606	246	5.35	5,932	332	5.57	(1,326 )	(22)	
Home equity lines of credit	16,337	463	2.83	16,783	470	2.79	(446 )	4	
Home equity loans serviced by others <sup>(1)</sup>	1,724	115	6.65	2,244	149	6.63	(520 )	2	
Home equity lines of credit serviced by others <sup>(1)</sup>	768	22	2.88	962	27	2.80	(194 )	8	
Automobile	8,857	235	2.65	8,276	273	3.30	581	(65)	
Student	2,202	95	4.30	2,240	91	4.06	(38 )	24	
Credit cards	1,669	175	10.46	1,634	166	10.15	35	31	
Other retail	1,453	107	7.36	1,800	127	7.03	(347 )	33	
Total retail	46,720	1,818	3.89	49,422	2,048	4.14	(2,702 )	(25)	
Total loans and leases	85,405	3,001	3.50	86,974	3,205	3.67	(1,569 )	(17)	
Loans held for sale	392	12	3.07	538	17	3.10	(146 )	(3)	
Interest-earning assets	107,149	3,501	3.25	111,144	3,846	3.45	(3,995 )	(20)	
Allowance for loan and lease losses	(1,219 )			(1,506 )			287		
Goodwill	9,063			11,311			(2,248 )		
Other noninterest-earning assets	5,873			6,717			(844 )		
Total noninterest-earning assets	13,717			16,522			(2,805 )		
Total assets	\$120,866			\$127,666			(\$6,800)		
<b>Liabilities and Stockholders' Equity</b>									
Checking with interest	\$14,096	\$8	0.06 %	\$13,522	\$10	0.08 %	\$574	(2) bps	
Money market and savings	42,575	105	0.25	41,249	121	0.29	1,326	(4)	
Term deposits	11,266	103	0.91	13,534	244	1.80	(2,268 )	(89)	
Total interest-bearing deposits	67,937	216	0.32	68,305	375	0.55	(368 )	(23)	
Federal funds purchased and securities sold under agreements to repurchase <sup>(2)</sup>	2,400	192	7.89	2,716	119	4.31	(316 )	358	
Other short-term borrowed funds	251	4	1.64	3,026	101	3.27	(2,775 )	(163)	
Long-term borrowed funds	778	31	3.93	1,976	24	1.20	(1,198 )	273	

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Total borrowed funds	3,429	227	6.53	7,718	244	3.11	(4,289 )	342
Total interest-bearing liabilities	71,366	443	0.61	76,023	619	0.80	(4,657 )	(19)
Demand deposits	25,399			25,053			346	
Other liabilities	2,267			2,652			(385 )	
Total liabilities	99,032			103,728			(4,696 )	
Stockholders' equity	21,834			23,938			(2,104 )	
Total liabilities and stockholders' equity	\$120,866			\$127,666			(\$6,800)	
Interest rate spread			2.64			2.65		(1)
Net interest income		\$3,058			\$3,227			
Net interest margin			2.85 %			2.89 %		(4) bps
Memo: Total deposits (interest-bearing and demand)	\$93,336	\$216	0.23 %	\$93,358	\$375	0.40 %	(\$22 )	(17) bps

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

(2) Balances are net of certain short-term receivables associated with reverse repurchase agreements. Interest expense includes the full cost of the repurchase agreements and certain hedging costs. The rate on federal funds purchased is elevated due to the impact from pay-fixed interest rate swaps that are scheduled to run off by the end of 2015. See “—Analysis of Financial Condition — December 31, 2013 Compared with December 31, 2012 — Derivatives” for further information.

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Net interest income of \$3.1 billion in 2013 decreased \$169 million, or 5%, from \$3.2 billion in 2012, and reflected a four basis point decline in net interest margin to 2.85%. The decrease in net interest income was driven by a reduction in earning asset yields given the relatively persistent low-rate environment, as well as a decrease in loan and securities portfolio balances, which were partially offset by a reduction in pay-fixed swap costs and improved deposit spreads. Average interest-earning assets decreased \$4.0 billion driven by a \$2.9 billion decrease in consumer real estate secured portfolios, a \$2.3 billion decrease in the investment securities portfolio and a \$385 million decrease in student and other installment loans, which were partially offset by a \$1.1 billion increase in total commercial loans and a \$581 million increase in auto loans.

The four basis point decrease in net interest margin reflected the effect of the relatively persistent low-rate environment, which led to a decline in earning asset yields that outpaced our ability to reduce the cost of interest-bearing liabilities. The decline in earning asset yields reflected continued prepayment of higher yielding consumer real estate secured loans as well as the contractual amortization of higher yield portfolios, which were entered into in higher interest rate environments. In addition, intense industry-wide competition for loans compressed spreads on new originations and resulted in downward pressure on loan yields. To a lesser extent, rates on interest-bearing deposits also declined compared to 2012. Industry wide, net interest margins experienced downward pressure as higher rate loan and securities balances ran off and deposit rates approached floors beneath which they cannot be reduced further.

The net yield on average interest-earning assets decreased 20 basis points to 3.25% in 2013 from 3.45% in 2012, reflecting a 17 basis point decline in the loan and lease portfolio yield and a 35 basis point decline in the investment portfolio yield from 2012. The decline in average yields largely reflected the effect of the continued low-rate environment as new loans and securities were issued at lower rates and prepayment speeds on higher rate fixed assets in the portfolio increased. Investment portfolio income of \$488 million decreased \$136 million, or 22%, from 2012, and the yield on the portfolio declined 35 basis points to 2.29%. These results were impacted by our strategic decision to slow down reinvestment activity in the first half of 2013, given extremely low levels of market rates.

Our total interest-bearing deposit costs in 2013 decreased \$159 million, or 42%, from \$375 million in 2012 and reflected a 23 basis point decrease in the rate paid on deposits to 0.32% from 0.55% in 2012. The rates paid on term deposits declined to 0.91% from 1.80% in 2012. As a result of the historically low interest rate environment, many deposit products have hit pricing floors at or near zero, limiting further rate reductions and thus compressing margin. The total cost of borrowed funds increased to 6.53% from 3.11% in 2012 due in part to additional subordinated debt issued in 2013 and the full expense impact of the subordinated debt issued in 2012, and also due to the impact of allocated hedge expense and netting of repurchase agreements. Excluding the cost of the hedge expense and netting, the total borrowed funds rates were 3.11% and 3.47% for 2013 and 2012, respectively.

#### Noninterest Income

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

(dollars in millions)	Year Ended			
	December 31,		Change	Percent
	2013	2012		
Service charges and fees	\$640	\$704	(\$64 )	(9 %)
Card fees	234	249	(15 )	(6 )
Mortgage banking fees	153	189	(36 )	(19 )
Trust and investment services fees	149	131	18	14
Foreign exchange and trade finance fees	97	105	(8 )	(8 )
Capital markets fees	53	52	1	2
Bank-owned life insurance income	50	51	(1 )	(2 )
Securities gains, net	144	95	49	52
Other income <sup>(1)</sup>	112	91	21	23
Noninterest income	\$1,632	\$1,667	(\$35 )	(2 %)

<sup>(1)</sup> Includes net impairment losses on securities available for sale recognized in earnings and other income. Total noninterest income of \$1.6 billion in 2013 decreased 2%, or \$35 million, from 2012 largely as higher securities gains, net, other income and trust and investment services fees were more than offset by lower service charges and fees, mortgage

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banking fees and card fees. Service charges and fees of \$640 million decreased 9% largely on lower account volume. Mortgage banking fees of \$153 million decreased \$36 million, or 19%, from \$189 million in 2012. The decrease was primarily driven by lower loan sale gains reflecting the decision to retain more loans on our balance sheet, which was partially offset by higher mortgage servicing rights valuations. Card fees of \$234 million declined \$15 million, or 6%, compared to \$249 million in 2012 driven by lower transaction volumes. Net gains on the sale of securities of \$144 million increased \$49 million, or 52%, from \$95 million in 2012 primarily reflecting the sale of higher yielding investment securities. Other income of \$112 million increased \$21 million, or 23%, from 2012 primarily due to a \$75 million gain on the sale of Visa Class B shares offset by a \$23 million loss on the sale of a commercial real estate portfolio recorded in 2012. Excluding the gain on the sale of Visa Class B shares and the loss on commercial real estate, other income increased \$73 million driven by higher derivatives income, leasing income, and a gain on sale of warrants.

#### Provision for Credit Losses

Provision for credit losses of \$479 million in 2013 increased \$66 million, or 16%, from \$413 million in 2012, despite a \$374 million decline in net charge-offs. The increase in the provision for credit losses reflected growth in the commercial loan portfolio and recognition of incremental loss exposure related to expected HELOC payment shock. Additionally, while overall credit quality continued to improve in 2013, the rate of improvement slowed relative to 2012. As a result, 2013 provision for credit losses included a release of \$22 million from the allowance for credit losses (the amount by which net charge-offs exceeded the provision), compared with a release of \$462 million in 2012. For further information regarding the expected HELOC payment shock, see “— Key Factors Affecting Our Business — HELOC Payment Shock.”

#### Noninterest Expense

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

(dollars in millions)	Year Ended			
	December 31,		Change	Percent
	2013	2012		
Salaries and employee benefits	\$1,652	\$1,743	(\$91 )	(5 %)
Outside services	360	339	21	6
Occupancy	327	310	17	5
Equipment expense	275	279	(4 )	(1 )
Amortization of software	102	77	25	32
Goodwill impairment	4,435	—	4,435	NM
Other operating expense	528	709	(181 )	(26 )
Noninterest expense	\$7,679	\$3,457	\$4,222	122 %

Noninterest expense of \$7.7 billion in 2013 increased \$4.2 billion from \$3.5 billion in 2012 and included a second quarter \$4.4 billion goodwill impairment charge as described below. Excluding the goodwill impairment, noninterest expense of \$3.2 billion declined \$213 million, or 6%, from \$3.5 billion in 2012. Results in 2012 included a \$138 million litigation settlement related to overdraft protection and a \$77 million settlement of defined benefit pension plan obligations to vested former employees, partially offset by a net \$5 million reversal of prior restructuring charges. Excluding these unusual items and a \$26 million restructuring charge in 2013, noninterest expense decreased \$29 million, or 1%, driven by lower other operating expense and salaries and employee benefits.

In the second quarter of 2013, we recorded a \$4.4 billion goodwill impairment charge driven by a deceleration of the expected future earnings associated with our Consumer Banking reporting unit as compared to our prior expectations. Although the U.S. economy has demonstrated signs of recovery, including notable improvements in unemployment and housing, the pace and extent of recovery in these indicators, as well as in overall gross domestic product, have lagged behind previous expectations and interest rates have remained at or near historically low levels for a protracted period of time. Lower economic growth rates for the United States, coupled with increased costs to comply with the



new regulatory framework in the financial services industry, resulted in a deceleration of the expected growth rate for future earnings associated with the Consumer Banking reporting unit, which caused us to record a goodwill impairment charge during the second quarter of 2013. For segment reporting purposes, the impairment charge is reflected in Other, and the remaining carrying value of goodwill totaled \$6.9 billion as of December 31, 2013. See Note 8 “Goodwill” to our audited Consolidated Financial Statements included in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report, for further information.

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Provision (Benefit) for Income Taxes

In 2013, we recorded an income tax benefit of \$42 million compared to \$381 million of income tax expense in 2012. The effective tax rates for the years ended December 31, 2013 and 2012 were 1.2% and 37.2%, respectively. The decrease in the effective rate was mainly due to the tax rate impact of the goodwill impairment in calculating our income tax benefit as well as the effect of a \$25 million charge related to a state tax settlement in 2012. Goodwill not deductible for tax purposes accounted for 78.4% of the total goodwill impairment charge and generated a reduction of 35.1% in our effective tax rate for the year ended December 31, 2013. During 2012, we recorded a state tax settlement charge for the years 2003 through 2008 related to our real estate investment trust and various passive investment companies. For more information on our 2012 tax settlement see Note 14 "Income Taxes" to our audited Consolidated Financial Statements included in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Business Segments

The following tables present certain financial data of our business segments for the year ended December 31, 2013:

(dollars in millions)	As of and for the Year Ended December 31, 2013			
	Consumer Banking	Commercial Banking	Other	(4) Consolidated
Net interest income (expense)	\$2,176	\$1,031	(\$149 )	\$3,058
Noninterest income	1,025	389	218	1,632
Total revenue	3,201	1,420	69	4,690
Noninterest expense	2,522	635	4,522	7,679
Profit (loss) before provision for credit losses	679	785	(4,453 )	(2,989 )
Provision for credit losses	308	(7 )	178	479
Income (loss) before income tax expense	371	792	(4,631 )	(3,468 )
Income tax expense (benefit)	129	278	(449 )	(42 )
Net income (loss)	\$242	\$514	(\$4,182 )	(\$3,426 )
Loans and leases and loans held for sale (year-end) (1)	\$45,019	\$36,155	\$5,939	\$87,113
Average Balances:				
Total assets	\$46,465	\$35,229	\$39,172	\$120,866
Loans and leases and loans held for sale (1)	45,106	34,647	6,044	85,797
Deposits and deposits held for sale	72,158	17,516	3,662	93,336
Interest-earning assets	45,135	34,771	27,243	107,149
Key Metrics:				
Net interest margin	4.82	% 2.97	% NM	2.85 %
Efficiency ratio (2)	78.76	44.66	NM	163.73
Efficiency ratio, excluding goodwill impairment(2)	78.76	44.66	NM	69.17
Average loans to average deposits ratio	62.51	197.80	NM	91.92
Return on average total tangible assets (2)	0.52	1.46	NM	(3.05 )
Return on average total tangible assets, excluding goodwill impairment (2)	0.52	1.46	NM	0.58
Return on average tangible common equity (2) (3)	5.48	13.20	NM	(25.91 )
Return on average tangible common equity, excluding goodwill impairment (2) (3)	5.48	13.20	NM	4.95

(1) Loans held for sale refer to mortgage loans held for sale recorded in the Consumer Banking segment, as well as the loans relating to the Chicago Divestiture, which are recorded in both the Consumer Banking and Commercial Banking segments.

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

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

(4) Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, revenues, provision for credit losses, and expenses not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see “—Analysis of Financial Condition — December 31, 2013 Compared with December 31, 2012 — Loans and Leases-Non-Core Assets.”

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

We operate our business through two operating segments: Consumer Banking and Commercial Banking. Segment results are derived from our business line profitability reporting systems by specifically attributing managed balance sheet assets, deposits, and other liabilities and their related income or expense. Residual assets and liabilities not attributed to Consumer Banking and Commercial Banking are attributed to Other.

Other includes our treasury function, securities portfolio, wholesale funding activities, goodwill and goodwill impairment, community development assets and other unallocated assets, liabilities, revenues, provision for credit losses and expenses not attributed to Consumer Banking or Commercial Banking. Other also includes our non-core assets. Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. The non-core portfolio totaled \$3.8 billion as of December 31, 2013, down 33% from December 31, 2012. The largest component of our non-core portfolio is our home equity products currently or formerly services by others.

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

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

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

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

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

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

## Consumer Banking

(dollars in millions)	As of and for the Year			
	Ended December 31,		Change	Percent
	2013	2012		
Net interest income	\$2,176	\$2,197	(\$21 )	(1 %)
Noninterest income	1,025	1,187	(162 )	(14 )
Total revenue	3,201	3,384	(183 )	(5 )
Noninterest expense	2,522	2,691	(169 )	(6 )
Profit before provision for credit losses	679	693	(14 )	(2 )
Provision for credit losses	308	408	(100 )	(24 )
Income before income tax expense	371	285	86	30
Income tax expense	129	100	29	29
Net income	\$242	\$185	\$57	31
Loans and leases and loans held for sale (year-end) <sup>(1)</sup>	\$45,019	\$46,289	(\$1,270)	(3 )
Average Balances:				
Total assets	\$46,465	\$47,824	(\$1,359)	(3 )
Loans and leases and loans held for sale <sup>(1)</sup>	45,106	46,455	(1,349 )	(3 )
Deposits and deposits held for sale	72,158	70,812	1,346	2
Interest-earning assets	45,135	46,479	(1,344 )	(3 %)
Key Metrics:				
Net interest margin	4.82	% 4.73	% 9 bps	
Efficiency ratio <sup>(2)</sup>	78.76	79.45	(69) bps	
Average loans to average deposits ratio	62.51	65.60	(309) bps	
Return on average total tangible assets <sup>(2)</sup>	0.52	0.39	13 bps	
Return on average tangible common equity <sup>(2) (3)</sup>	5.48	4.89	59 bps	

<sup>(1)</sup> Loans held for sale include mortgage loans held for sale and loans relating to the Chicago Divestiture.

<sup>(2)</sup> These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures.”

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

Consumer Banking net income of \$242 million in 2013 increased \$57 million, or 31%, from 2012 as a 5% decrease in revenue was more than offset by a 6% decrease in noninterest expense and a \$100 million decrease in provision for credit losses. 2012 unusual items included a \$75 million (\$48 million after tax) benefit in revenue relating to a gain on the sale of Visa class B shares and a \$138 million (\$87 million after tax) settlement charge in noninterest expense associated with overdraft litigation. Excluding these items, net income increased \$18 million as the benefit of lower provision for credit losses and continued expense discipline more than offset the lower revenue reflecting continued pressure from the relatively persistent low-rate environment as well as the impact of regulatory changes on service charges and card fees.

Net interest income of \$2.2 billion in 2013 declined \$21 million, or 1%, largely driven by a 3% decrease in earning assets and a reduction in deposit spreads. The average loan portfolio declined \$1.3 billion to \$45.1 billion, driven by a \$1.8 billion decrease in home equity balances given industry wide higher levels of mortgage refinance activity. In 2013, we originated \$5.7 billion in mortgages compared with \$7.9 billion in 2012. We sold 67% of 2013 originations

compared to 70% in 2012. Average deposits grew 2% to \$72.2 billion reflecting a \$3.0 billion increase in money market deposits, partially offset by a \$2.4 billion decrease in certificates of deposit.

Noninterest income of \$1.0 billion decreased \$162 million, or 14%, from 2012, which included the benefit of the \$75 million gain on the sale of Visa class B shares. Excluding this gain, noninterest income decreased \$87 million driven by a \$53 million decrease in service charges and a \$36 million decrease in mortgage banking fees. The decrease in mortgage banking fees reflected a \$2.2 billion decrease in origination volumes as well as lower gains on the sale of mortgages as secondary market spreads narrowed. Gains on sale of mortgages decreased \$77 million and volume related fees declined \$28 million, partially offset by the recovery of mortgage servicing rights valuations and lower amortization expense.

CITIZENS FINANCIAL GROUP, INC.  
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Noninterest expense of \$2.5 billion decreased \$169 million, or 6%, from 2012, which included the \$138 million overdraft settlement. Excluding this settlement charge, noninterest expense decreased \$31 million driven by lower salaries and benefits and branch related costs partially offset by higher commissions expense. Provision for credit losses of \$308 million decreased \$100 million, or 24%, from 2012, largely reflecting the benefit of decreased charge-offs in the residential real estate secured portfolio as well as general improvement in the credit environment.

Commercial Banking

(dollars in millions)	As of and for the Year Ended December 31,			
	2013	2012	Change	Percent
Net interest income	\$1,031	\$1,036	(\$5 )	— %
Noninterest income	389	349	40	11
Total revenue	1,420	1,385	35	3
Noninterest expense	635	625	10	2
Profit before provision for credit losses	785	760	25	3
Provision for credit losses	(7 )	63	(70 )	(111 )
Income before income tax expense	792	697	95	14
Income tax expense	278	244	34	14
Net income	\$514	\$453	\$61	13
Loans and leases and loans held for sale (year-end) <sup>(1)</sup>	\$36,155	\$34,384	\$1,771	5
Average Balances:				
Total assets	\$35,229	\$33,474	\$1,755	5
Loans and leases and loans held for sale <sup>(1)</sup>	34,647	32,499	2,148	7
Deposits and deposits held for sale	17,516	17,650	(134 )	(1 )
Interest-earning assets	34,771	32,600	2,171	7 %
Key Metrics:				
Net interest margin	2.97	% 3.18	% (21) bps	
Efficiency ratio <sup>(2)</sup>	44.66	45.22	(56) bps	
Average loans to average deposits ratio	197.80	184.13	1,367 bps	
Return on average total tangible assets <sup>(2)</sup>	1.46	1.35	11 bps	
Return on average tangible common equity <sup>(2) (3)</sup>	13.20	12.45	75 bps	

<sup>(1)</sup> Loans held for sale include loans relating to the Chicago Divestiture.

<sup>(2)</sup> These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures.”

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

Commercial Banking net income of \$514 million in 2013 increased \$61 million, or 13%, from \$453 million in 2012 driven by growth in noninterest income and continued improvement in credit quality. Total revenue rose 3% reflecting an 11% increase in noninterest income and relatively flat net interest income.

Net interest income of \$1.0 billion in 2013 remained relatively flat with the prior year as the benefit of loan growth of 7%, largely in middle market, mid-corporate, and franchise lending, was offset by a 21 basis point decline in net interest margin given the relatively persistent low-rate environment.

Noninterest income of \$389 million in 2013 increased \$40 million, or 11%, from 2012, largely due to higher interest rate products and leasing income, which was partially offset by lower foreign exchange and trade finance fees.

Noninterest expense of \$635 million in 2013 increased \$10 million, driven by higher salary and benefits cost as well as continued investment in technology and risk management.

Average loans and leases increased \$2.1 billion, or 7%, in 2013 due to strong new loan origination activity particularly in the second half of 2013 in commercial finance. Average deposit balances were relatively flat at \$17.5 billion despite a \$256 million increase in noninterest-bearing demand deposits.



CITIZENS FINANCIAL GROUP, INC.  
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Provision for credit losses in 2013 reflected a net recovery of \$7 million on prior charge-offs, compared with an expense of \$63 million in 2012, as overall credit quality continued to improve.

Other

(dollars in millions)	As of and for the Year Ended			
	December 31,			
	2013	2012	Change	Percent
Net interest (expense)	(\$149 )	(\$6 )	(\$143 )	NM
Noninterest income	218	131	87	66 %
Total revenue	69	125	(56 )	(45 )
Noninterest expense	4,522	141	4,381	NM
(Loss) before provision for credit losses	(4,453 )	(16 )	(4,437 )	NM
Provision for credit losses	178	(58 )	236	406
(Loss) income before income tax (benefit) expense	(4,631 )	42	(4,673 )	NM
Income tax (benefit) expense	(449 )	37	(486 )	NM
Net (loss) income	(\$4,182 )	\$5	(\$4,187 )	NM
Loans and leases and loans held for sale (year-end)	\$5,939	\$7,221	(\$1,282 )	(18 )
Average Balances:				
Total assets	\$39,172	\$46,368	(\$7,196 )	(16 )
Loans and leases and loans held for sale	6,044	8,558	(2,514 )	(29 )
Deposits and deposits held for sale	3,662	4,896	(1,234 )	(25 )
Interest-earning assets	27,243	32,065	(4,822 )	(15 %)

A net loss of \$4.2 billion was recorded for the year ended December 31, 2013, which included a pre-tax goodwill impairment charge of \$4.4 billion. Excluding the goodwill impairment, the net loss was \$102 million compared with net income of \$5 million in 2012. 2013 results reflected the benefit of higher noninterest income and lower noninterest expense, which was more than offset by higher provision for credit losses and a reduction in net interest income. Total revenue of \$69 million in 2013 decreased by \$56 million, or 45%, from \$125 million in 2012.

Net interest income in 2013 decreased \$143 million to a loss of \$149 million compared to a loss of \$6 million in 2012. The decrease was driven by lower average investment portfolio balances of \$2.3 billion, a \$2.2 billion decrease in average non-core loan balances and a decrease in residual net interest income related to funds transfer pricing, which was partially offset by the benefit of interest rate swaps used for hedging assets and liabilities.

Noninterest income of \$218 million in 2013 increased \$87 million, or 66%, from \$131 million in 2012, which included a \$23 million loss on sale of non-core loans. Noninterest income in 2013 also included higher net gains on sale of securities available for sale of \$65 million.

The provision for credit losses within Other mainly represents the residual change in the consolidated allowance for credit losses after attributing the respective net charge-offs to the Consumer Banking and Commercial Banking segments. It also includes net charge-offs related to the non-core portfolio. The provision totaled \$178 million in 2013, and was an increase of \$236 million from a negative provision of \$58 million in 2012. Non-core net charge-offs were \$195 million and \$393 million in 2013 and 2012, respectively, resulting from improved credit quality and continued runoff in the portfolio. 2013 provision for credit losses included a release of \$22 million from the allowance for credit losses (the amount by which net charge-offs exceeded the provision), compared with a release of \$462 million in 2012.

Noninterest expense of \$4.5 billion increased \$4.4 billion from \$141 million in 2012 and included a \$4.4 billion goodwill impairment charge. Noninterest expense, excluding goodwill impairment, of \$87 million in 2013 decreased \$54 million, or 38%, from \$141 million in 2012. 2013 results included \$26 million of restructuring charges, and 2012 results included a \$77 million settlement of defined benefit pension plan obligations to vested former employees, partially offset by a net \$5 million reversal of prior restructuring charges.

Total assets included \$2.1 billion and \$4.8 billion of goodwill related to the Consumer Banking and Commercial Banking reporting units, respectively. For further information regarding the reconciliation of segment results to GAAP results, see Note 23

CITIZENS FINANCIAL GROUP, INC.  
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“Business Segments” to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Analysis of Financial Condition — December 31, 2014 Compared with December 31, 2013

Loans and Leases

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

(dollars in millions)	December 31,				Percent	
	2014	2013	Change			
Commercial	\$31,431	\$28,667	\$2,764	10		%
Commercial real estate	7,809	6,948	861	12		
Leases	3,986	3,780	206	5		
Total commercial	43,226	39,395	3,831	10		
Residential mortgages	11,832	9,726	2,106	22		
Home equity loans	3,424	4,301	(877)	(20)	)	)
Home equity lines of credit	15,423	15,667	(244)	(2)	)	)
Home equity loans serviced by others <sup>(1)</sup>	1,228	1,492	(264)	(18)	)	)
Home equity lines of credit serviced by others <sup>(1)</sup>	550	679	(129)	(19)	)	)
Automobile	12,706	9,397	3,309	35		
Student	2,256	2,208	48	2		
Credit cards	1,693	1,691	2	—		
Other retail	1,072	1,303	(231)	(18)	)	)
Total retail	50,184	46,464	3,720	8		
Total loans and leases <sup>(2) (3)</sup>	\$93,410	\$85,859	\$7,551	9		%

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

<sup>(2)</sup> Excluded from the table above are loans held for sale totaling \$281 million and \$1.3 billion as of December 31, 2014 and 2013, respectively. Loans held for sale as of December 31, 2013 primarily related to the Chicago Divestiture. For further discussion, see Note 17 “Divestitures and Branch Assets and Liabilities Held for Sale” to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

<sup>(3)</sup> Mortgage loans serviced for others by our subsidiaries are not included above, and amounted to \$17.9 billion and \$18.7 billion at December 31, 2014 and 2013, respectively.

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

As of December 31, 2014, our loans and leases portfolio increased \$7.6 billion, or 9%, to \$93.4 billion compared to \$85.9 billion as of December 31, 2013, reflecting growth in both retail and commercial. Total commercial loans and leases of \$43.2 billion grew \$3.8 billion, or 10%, from \$39.4 billion as of December 31, 2013. Total retail loans of \$50.2 billion increased \$3.7 billion, or 8%, from \$46.5 billion as of December 31, 2013, driven by a 35% increase in automobile loans reflecting both purchases associated with our flow purchase agreement and stronger originations. Residential mortgages increased 22%, reflecting the benefit of purchases and our decision to retain more originations on balance sheet. Results also reflected a reduction in home equity outstandings, including runoff in the serviced by

others portfolio.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-Core Assets

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

(dollars in millions)	December 31,		(Date of Designation) June 30, 2009	Change from 2014-2013	Change from 2014-2009
	2014	2013			
Commercial	\$68	\$108	\$1,900	(37 %)	(96 %)
Commercial real estate	216	381	3,412	(43 )	(94 )
Total commercial	284	489	5,312	(42 )	(95 )
Residential mortgages	365	432	1,467	(16 )	(75 )
Home equity loans	118	151	384	(22 )	(69 )
Home equity lines of credit	121	111	231	9	(48 )
Home equity loans serviced by others <sup>(1)</sup>	1,228	1,492	4,591	(18 )	(73 )
Home equity lines of credit serviced by others <sup>(1)</sup>	550	679	1,589	(19 )	(65 )
Automobile	—	—	769	—	(100 )
Student	369	406	1,495	(9 )	(75 )
Credit cards	—	—	995	—	(100 )
Other retail	—	—	3,268	—	(100 )
Total retail	2,751	3,271	14,789	(16 )	(81 )
Total non-core loans	3,035	3,760	20,101	(19 )	(85 )
Other assets	65	81	378	(20 )	(83 )
Total non-core assets	\$3,100	\$3,841	\$20,479	(19 %)	(85 %)

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

Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. We have actively managed these loans down since they were designated as non-core on June 30, 2009. Between that time and December 31, 2014, the portfolio has decreased \$17.4 billion, including principal repayments of \$9.4 billion; charge-offs of \$3.9 billion; transfers back to the core portfolio of \$2.8 billion; and sales of \$1.3 billion.

Transfers from non-core back to core are handled on an individual request basis and managed through the chief credit officer for our non-core portfolio. The rationale can vary and in the past some loan portfolio transfers have been approved after determination that the original decision to place them in non-core was not deemed appropriate. Individual loans can be reconsidered when the customer prospects change—typically related to situations where a non-strategic customer becomes a strategic customer due to growth or a new credit request that was previously considered to be unlikely.

Non-core assets totaled \$3.1 billion as of December 31, 2014, down 19% from December 31, 2013 driven by principal repayments of \$604 million. Commercial non-core loan balances declined 42% compared to December 31, 2013, ending at \$284 million compared to \$489 million at December 31, 2013. Retail non-core loan balances of \$2.8 billion decreased 16% or \$520 million compared to December 31, 2013.

The largest component of our non-core portfolio is the home equity portfolio serviced by other firms (“SBO”). 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 \$1.1 billion and \$1.3 billion as of

December 31, 2014 and December 31, 2013, respectively. The SBO portfolio has been closed to new purchases since the third quarter of 2007, with exposure down to \$1.8 billion as of December 31, 2014, compared to \$2.2 billion as of December 31, 2013. The SBO portfolio represented 6% of the retail real estate secured portfolio and 4% of the overall retail loan portfolio as of December 31, 2014.

The credit profile of the SBO portfolio was significantly weaker than the core real estate portfolio, with a weighted-average refreshed FICO score of 713 and combined loan-to-value (“CLTV”) of 88.9% as of December 31, 2014. The proportion of the portfolio in a second lien (subordinated) position was 95% with 72% of the portfolio in out-of-footprint geographies including 29% in California, Nevada, Arizona and Florida.

CITIZENS FINANCIAL GROUP, INC.  
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SBO credit performance continued to improve in 2014 driven by continued portfolio liquidation (the weakest performing loans have already been charged off), more effective account servicing and collection strategies, and improvements in the real estate market. SBO portfolio charge-offs of \$41 million, or 2.1%, of SBO loans in 2014 improved from \$118 million, or 4.7%, in 2013.

Allowance for Credit Losses and Nonperforming Assets

We and our banking subsidiaries, Citizens Bank, National Association and Citizens Bank of Pennsylvania, maintain an allowance for credit losses, consisting of an ALLL and a reserve for unfunded lending commitments. This allowance is created through charges to income, or provision for credit losses, and is maintained at an appropriate level adequate to absorb anticipated losses and is determined in accordance with GAAP. For further information on our processes to determine our allowance for credit losses, see “—Critical Accounting Estimates — Allowance for Credit Losses”, Note 5 “Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk” and Note 1 “Significant Accounting Policies” to our audited Consolidated Financial Statements both in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

The allowance for credit losses totaled \$1.3 billion at December 31, 2014 and December 31, 2013. Our allowance for loan and lease losses was 1.3% of total loans and leases and 109% of nonperforming loans and leases as of December 31, 2014 compared with 1.4% and 86% as of December 31, 2013. The total loan portfolio credit performance continued to improve across all credit measures in the year ended December 31, 2014. Net charge-offs for the year ended December 31, 2014 of \$323 million decreased 36% compared to \$501 million for the year ended December 31, 2013, with a reduction in virtually every portfolio. The portfolio annualized net charge-off rate declined to 0.36% for the year ended December 31, 2014 from 0.59% for the year ended December 31, 2013. The delinquency rate improved to 1.5% as of December 31, 2014 from 1.9% at December 31, 2013. Nonperforming loans and leases totaled \$1.1 billion, or 1.2%, of the total portfolio as of December 31, 2014 as compared to \$1.4 billion, or 1.7%, of the total loan portfolio as of December 31, 2013. At December 31, 2014, \$624 million of nonperforming loans and leases had been designated as impaired and had no specific allowance because they had been written down to the fair value of their collateral. These loans included \$550 million of retail loans and \$74 million of commercial loans. Excluding impaired loans that have been written down to their net realizable value, the allowance to nonperforming loans ratio totaled 251% at December 31, 2014 as compared to 151% at December 31, 2013.

Commercial Loan Asset Quality

Our commercial loan portfolio consists of traditional commercial and commercial real estate loans. The portfolio is focused primarily on in-footprint customers where our local delivery model provides for strong client connectivity.

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

During the year ended December 31, 2014, the quality of the commercial loan portfolio improved. As of December 31, 2014, total criticized loans decreased to 4.5%, or \$1.9 billion, of the commercial loan portfolio compared to 4.9%, or \$1.9 billion, at December 31, 2013. Commercial real estate criticized balances decreased 21.8% to 5.8%, or \$455 million, of the commercial real estate portfolio compared to 8.4%, or \$582 million, as of December 31, 2013. Commercial real estate accounted for 23.6% of the criticized loans as of December 31, 2014, compared to 30.4% as of December 31, 2013.

Nonperforming balances and charge-offs displayed a positive trend in 2014. As of December 31, 2014, nonperforming commercial balances decreased \$101 million, or 38.1%, to \$164 million, compared to \$265 million as of December 31, 2013, with a 70.4% decline in commercial real estate nonperforming loans over the same period. As of December 31, 2014, nonperforming commercial loans stood at 0.4% of the commercial loan portfolio compared to 0.7% as of December 31, 2013. Net charge-offs in our commercial loan portfolio for the year ended December 31, 2014 decreased \$36 million ending in a net recovery position of \$15 million compared to a net charge-off of \$21 million for the year ended December 31, 2013 primarily due to lower gross charge-offs and continued recovery of prior period losses. The improvement was driven by improved economic conditions and a strategic focus on high quality new business. See “—Key Factors Affecting Our Business—Credit Trends” for further details.



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MANAGEMENT'S DISCUSSION AND ANALYSIS

### Retail Loan Asset Quality

For retail loans, we primarily use the loan's payment and delinquency status to monitor credit quality. The further a loan is past due, the greater the likelihood of future credit loss. These credit quality indicators are continually updated and monitored. Our retail loan portfolio remains predominantly focused on lending across the New England, Mid-Atlantic and Midwest regions, with continued geographic expansion outside the footprint with the auto finance and student lending portfolios. Originations within the footprint are primarily initiated through the branch network, whereas out-of-footprint lending is driven by indirect auto loans in dealer networks and through purchase agreements, and student loans via our online platform.

The credit composition of our retail loan portfolio at December 31, 2014 remained favorable and well positioned across all product lines with an average refreshed FICO score of 755, in line with December 31, 2013. Our real estate CLTV ratio is calculated as the mortgage amount divided by the appraised value of the property and was 65.4% as of December 31, 2014 compared to 67.8% as of December 31, 2013. Excluding the SBO portfolio, the real estate combined loan-to-value was 63.8% as of December 31, 2014 compared to 65.1% as of December 31, 2013. Asset quality remains stable with a net charge-off rate (core and non-core) of 0.70% for the year ended December 31, 2014, a decrease of 33 basis points from the year ended December 31, 2013.

Nonperforming retail loans as a percentage of total retail loans were 1.9% as of December 31, 2014 which is an improvement of 61 basis points from December 31, 2013. Retail nonaccrual loans of \$930 million at December 31, 2014 decreased \$188 million from \$1.1 billion at December 31, 2013 as continued improvement in real estate secured loans were modestly offset by increases in student loans and automobile loans, largely reflecting expected portfolio seasoning given increased portfolio growth. The improvement in nonperforming retail loans was primarily driven by transfers of loans from nonaccrual to accrual status.

### Special Topics-HELOC Payment Shock

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

### Troubled Debt Restructuring

Troubled debt restructuring (“TDR”) is the classification given to a loan that has been restructured in a manner that grants a concession to a borrower that is experiencing financial hardship that we would not otherwise make. TDRs typically result from our loss mitigation efforts and are undertaken in order to improve the likelihood of recovery and continuity of the relationship. Our loan modifications are handled on a case by case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet our borrower's financial needs. The types of concessions include interest rate reductions, term extensions, principal forgiveness and other modifications to the structure of the loan that fall outside lending policy. Depending on the specific facts and circumstances of the customer, restructuring can involve loans moving to nonaccrual, remaining on nonaccrual or continuing on accrual status. As of December 31, 2014, we had \$1.2 billion classified as retail TDRs, of which \$387 million were in nonaccrual status. Within this nonaccrual population, 47.0% were current in payment. TDRs generally return to accrual status once repayment capacity and appropriate payment history can be established. TDRs are evaluated for impairment individually. Loans are classified as TDRs until paid off, sold or refinanced at market terms.

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For additional information regarding TDRs, see “—Critical Accounting Estimates — Allowance for Credit Losses,” Note 5 “Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk” and Note 1 “Significant Accounting Policies” to our audited Consolidated Financial Statements both in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

The table below presents our retail TDRs in delinquent status:

(in millions)	December 31, 2014			Total
	Current	30-89 Days Past Due	90+ Days Past Due	
Recorded Investment:				
Residential mortgages	\$319	\$41	\$85	\$445
Home equity loans	203	26	41	270
Home equity lines of credit	134	7	20	161
Home equity loans serviced by others <sup>(1)</sup>	82	5	4	91
Home equity lines of credit serviced by others <sup>(1)</sup>	8	1	2	11
Automobile	10	1	—	11
Student	158	7	2	167
Credit cards	28	3	1	32
Other retail	19	1	—	20
Total	\$961	\$92	\$155	\$1,208

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

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

(in millions)	December 31, 2014		
	Accruing	Nonaccruing	Total
Recorded Investment:			
Residential mortgages	\$285	\$160	\$445
Home equity loans	172	98	270
Home equity lines of credit	82	79	161
Home equity loans serviced by others <sup>(1)</sup>	63	28	91
Home equity lines of credit serviced by others <sup>(1)</sup>	3	8	11
Automobile	6	5	11
Student	160	7	167
Credit cards	31	1	32
Other retail	19	1	20
Total	\$821	\$387	\$1,208

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

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Securities

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

(dollars in millions)	December 31, 2014		December 31, 2013		Change in Fair Value		
	Amortized Cost	Fair Value	Amortized Cost	Fair Value			
<b>Securities Available for Sale:</b>							
U.S. Treasury	\$15	\$15	\$15	\$15	\$—	—	%
State and political subdivisions	10	10	11	10	—	—	
<b>Mortgage-backed securities:</b>							
Federal agencies and U.S. government sponsored entities	17,683	17,934	14,970	14,993	2,941	20	
Other/non-agency	703	672	992	952	(280)	(29)	)
Total mortgage-backed securities	18,386	18,606	15,962	15,945	2,661	17	
Total debt securities	18,411	18,631	15,988	15,970	2,661	17	
Marketable equity securities	10	13	10	13	—	—	
Other equity securities	12	12	12	12	—	—	
Total equity securities	22	25	22	25	—	—	
Total securities available for sale	\$18,433	\$18,656	\$16,010	\$15,995	\$2,661	17	
<b>Securities Held to Maturity:</b>							
<b>Mortgage-backed securities:</b>							
Federal agencies and U.S. government sponsored entities	\$3,728	\$3,719	\$2,940	\$2,907	\$812	28	
Other/non-agency	1,420	1,474	1,375	1,350	124	9	
Total securities held to maturity	\$5,148	\$5,193	\$4,315	\$4,257	\$936	22	
Total securities available for sale and held to maturity	\$23,581	\$23,849	\$20,325	\$20,252	\$3,597	18	%

As of December 31, 2014, the fair value of the securities portfolio increased by \$3.6 billion, or 18%, to \$23.8 billion, compared to \$20.3 billion as of December 31, 2013, reflecting our decision to continue to increase interest-earning assets to a level more consistent with our capital levels and the balance sheet profile of regional bank peers. As of December 31, 2014, the portfolio had a weighted-average expected life of 4.2 years compared with 4.6 years as of December 31, 2013.

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

Securities portfolio income of \$583 million in 2014, increased \$137 million, or 31%, from \$446 million in 2013, and reflected a yield of 2.49% compared with 2.47% in 2013.

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Deposits

The table below represents the major components of our deposits:

(dollars in millions)	December 31,			
	2014	2013	Change	Percent
Demand	\$26,086	\$24,931	\$1,155	5 %
Checking with interest	16,394	13,630	2,764	20
Regular savings	7,824	7,509	315	4
Money market accounts	33,345	31,245	2,100	7
Term deposits	12,058	9,588	2,470	26
Total deposits	95,707	86,903	8,804	10
Deposits held for sale <sup>(1)</sup>	—	5,277	(5,277 )	(100 )
Total deposits and deposits held for sale	\$95,707	\$92,180	\$3,527	4 %

<sup>(1)</sup> Reflects \$5.3 billion in deposits that were reclassified to deposits held for sale at December 31, 2013 related to the Chicago Divestiture. For further discussion, see Note 17 "Divestitures and Branch Assets and Liabilities Held for Sale" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Total deposits as of December 31, 2014, increased \$8.8 billion, or 10%, to \$95.7 billion compared to \$86.9 billion as of December 31, 2013. All categories of deposits increased, led by checking with interest which increased by \$2.8 billion, or 20%. Deposits held for sale decreased \$5.3 billion reflecting the impact of the June 2014 Chicago Divestiture.

Borrowed Funds

The tables below present our borrowed funds.

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

(dollars in millions)	December 31,			
	2014	2013	Change	Percent
Federal funds purchased	\$574	\$689	(\$115 )	(17 %)
Securities sold under agreements to repurchase	3,702	4,102	(400 )	(10 )
Other short-term borrowed funds	6,253	2,251	4,002	178
Total short-term borrowed funds	\$10,529	\$7,042	\$3,487	50 %

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

(dollars in millions)	As of and for the Year Ended					
	December 31,		2013		2012	
	2014	%	2013	%	2012	%
Weighted-average interest rate at year-end:						
Federal funds purchased and securities sold under agreements to repurchase	0.14	%	0.09	%	0.10	%
Other short-term borrowed funds	0.26		0.20		0.29	
Maximum amount outstanding at month-end during the year:						
Federal funds purchased and securities sold under agreements to repurchase	\$7,022		\$5,114		\$4,393	
Other short-term borrowed funds	7,702		2,251		5,050	
Average amount outstanding during the year:						
Federal funds purchased and securities sold under agreements to repurchase	\$5,699		\$2,400		\$2,716	
Other short-term borrowed funds	5,640		251		3,026	
Weighted-average interest rate during the year:						
Federal funds purchased and securities sold under agreements to repurchase	0.12	%	0.31	%	0.22	%
Other short-term borrowed funds	0.25		0.44		0.33	

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

(in millions)	December 31,	
	2014	2013
Citizens Financial Group, Inc.:		
4.150% fixed rate subordinated debt, due 2022	\$350	\$350
5.158% fixed-to-floating rate subordinated debt, (LIBOR + 3.56%) callable, due 2023 <sup>(1)</sup>	333	333
4.771% fixed rate subordinated debt, due 2023 <sup>(1)</sup>	333	333
4.691% fixed rate subordinated debt, due 2024 <sup>(1)</sup>	334	334
4.153% fixed rate subordinated debt, due 2024 <sup>(1)</sup>	333	—
4.023% fixed rate subordinated debt, due 2024 <sup>(1)</sup>	333	—
4.082% fixed rate subordinated debt, due 2025 <sup>(1)</sup>	334	—
Banking Subsidiaries:		
1.600% senior unsecured notes, due 2017 <sup>(2)</sup>	750	—
2.450% senior unsecured notes, due 2019 <sup>(2) (3)</sup>	746	—
Federal Home Loan advances due through 2033	772	25
Other	24	30
Total long-term borrowed funds	\$4,642	\$1,405

<sup>(1)</sup> Intercompany borrowed funds with RBS Group. See Note 18 “Related Party Transactions” to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

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

<sup>(3)</sup> \$750 million principal balance of unsecured notes presented net of \$4 million hedge of interest rate risk on medium term debt using interest rate swaps. See Note 15 “Derivatives” to our audited Consolidated Financial Statements in Part

II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Short-Term Borrowed Funds

Short-term borrowed funds of \$10.5 billion as of December 31, 2014, increased \$3.5 billion from \$7.0 billion as of December 31, 2013 driven by a \$4.0 billion increase in other short-term borrowed funds, primarily secured FHLB advances,

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reflecting the impact of both growth in interest-earning assets and a \$5.3 billion decrease in deposits held for sale related to the Chicago Divestiture.

As of December 31, 2014, our total contingent liquidity was \$19.5 billion, consisting of net cash at the Federal Reserve (which is defined as total excess cash balances held at the Federal Reserve Banks plus federal funds sold minus federal funds purchased) of \$1.5 billion, unencumbered high-quality securities totaling \$14.5 billion and unused FHLB capacity of approximately \$3.5 billion. Additionally, unencumbered loans pledged at the Federal Reserve Banks of \$8.3 billion, created total available liquidity of approximately \$27.8 billion.

Long-Term Borrowed Funds

Long-term borrowed funds of \$4.6 billion as of December 31, 2014 increased \$3.2 billion from \$1.4 billion as of December 31, 2013 driven by a \$1.5 billion increase related to our issuance of senior unsecured debt and a \$1.0 billion issuance of subordinated debt in connection with our capital exchange transactions with RBS Group. In 2014, CBNA established a \$3.0 billion Global Bank Note Program ("Program") and on December 1, 2014, issued \$1.5 billion in senior notes, consisting of \$750 million of three-year fixed-rate notes, and \$750 million of five-year fixed-rate notes. This Program represents a key source of unsecured, stable funding, and further diversified funding sources for CBNA, as we continue to migrate to a more peer-like funding structure for the consolidated enterprise.

Access to additional funding through repurchase agreements, collateralized borrowed funds or asset sales is available. Additionally, there is capacity to grow deposits. While access to short-term wholesale markets is limited, we have been able to meet our funding needs for the medium term with deposits and collateralized borrowed funds.

Derivatives

We use derivatives to manage interest-rate risk which are grouped into three categories according to hedged item and strategy.

Historically, we used pay-fixed swaps to synthetically lengthen liabilities and offset duration in fixed-rate assets. Since 2008, we elected to terminate or runoff the existing pay-fixed swap notional balances which totaled \$1.0 billion as of December 31, 2014 compared with \$1.5 billion as of December 31, 2013. Pay-fixed-rates on the swaps ranged from 4.18% to 4.30% in 2014 compared with 4.18% to 5.47% in 2013. We received the daily Federal Funds effective rate on these swaps.

We use receive-fixed swaps to minimize the exposure to variability in the interest cash flows on our floating rate assets. As of December 31, 2014, receive-fixed swap hedges of floating-rate loans totaled \$4.0 billion, unchanged from December 31, 2013. At December 31, 2014, the fixed rate range was 1.78% to 2.04% unchanged from December 31, 2013, and we paid one-month London Interbank Offered Rate ("LIBOR") on these swaps.

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

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

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The table below presents our derivative assets and liabilities. For additional information regarding our derivative instruments, see Note 15 "Derivatives" in our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

(dollars in millions)	December 31, 2014			December 31, 2013			Changes in Net	
	Notional Amount (1)	Derivative Assets	Derivative Liabilities	Notional Amount (1)	Derivative Assets	Derivative Liabilities	Assets/ Liabilities	
Derivatives designated as hedging instruments:								
Interest rate swaps	\$5,750	\$24	\$99	\$5,500	\$23	\$412	(81	%)
Derivatives not designated as hedging instruments:								
Interest rate swaps	31,848	589	501	29,355	654	558	(8	)
Foreign exchange contracts	8,359	170	164	7,771	94	87	(14	)
Other contracts	730	7	9	569	7	10	(33	)
Total derivatives not designated as hedging instruments		766	674		755	655	(8	)
Gross derivative fair values		790	773		778	1,067	(106	)
Less: Gross amounts offset in the Consolidated Balance Sheets <sup>(2)</sup>		(161	) (161	)	(128	) (128	)	
Total net derivative fair values presented in the Consolidated Balance Sheets <sup>(3)</sup>		\$629	\$612		\$650	\$939		

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

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

<sup>(3)</sup> We also offset assets and liabilities associated with repurchase agreements on our Consolidated Balance Sheets. See Note 3, "Securities," in our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.



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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 2014 and 2013, 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 elsewhere 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 elsewhere 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, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
<b>Operating Data:</b>								
Net interest income	\$840	\$820	\$833	\$808	\$779	\$770	\$749	\$760
Noninterest income	339	341	640	358	379	383	437	433
Total revenue	1,179	1,161	1,473	1,166	1,158	1,153	1,186	1,193
Provision for credit losses	72	77	49	121	132	145	112	90
Noninterest expense	824	810	948	810	818	788	5,252	821
Income (loss) before income tax expense (benefit)	283	274	476	235	208	220	(4,178 )	282
Income tax expense (benefit)	86	85	163	69	56	76	(273 )	99
Net income (loss)	\$197	\$189	\$313	\$166	\$152	\$144	(\$3,905)	\$183
Net income (loss) per average common share-basic <sup>(1)</sup>	\$0.36	\$0.34	\$0.56	\$0.30	\$0.27	\$0.26	(\$6.97 )	\$0.33
Net income (loss) per average common share-diluted <sup>(1)</sup>	\$0.36	\$0.34	\$0.56	\$0.30	\$0.27	\$0.26	(\$6.97 )	\$0.33
<b>Other Operating Data:</b>								
Return on average common equity <sup>(2) (3)</sup>	4.06	% 3.87	% 6.41	% 3.48	% 3.12	% 2.91	% (13.94 )	% 3.07
Return on average total assets <sup>(3) (4)</sup>	0.60	0.58	0.99	0.54	0.50	0.49	(2.77 )	0.60
Net interest margin <sup>(3) (5)</sup>	2.80	2.77	2.87	2.89	2.83	2.88	2.82	2.84
<b>Stock Activity:</b>								
<b>Share Price:</b>								
High	\$25.60	\$23.57	\$—	\$—	\$—	\$—	\$—	\$—
Low	21.47	21.35	—	—	—	—	—	—
<b>Share Data:</b>								
Cash dividends declared and paid per common share	\$0.10	\$0.68	\$0.61	\$0.04	\$0.67	\$0.68	\$0.69	\$0.07
Dividend payout ratio	28	% 203	% 110	% 15	% 246	% 268	% (10 )	% 22



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(dollars in millions)	As of December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	
Balance Sheet									
Data:									
Total assets	\$132,857	\$131,341	\$130,279	\$126,892	\$122,154	\$120,074	\$117,833	\$126,044	
Loans and leases <sup>(6)</sup>	93,410	90,749	88,829	87,083	85,859	85,493	85,006	85,782	
Allowance for loan and lease losses	1,195	1,201	1,210	1,259	1,221	1,219	1,200	1,219	
Total securities	24,676	24,848	24,823	24,804	21,245	20,852	17,408	18,066	
Goodwill	6,876	6,876	6,876	6,876	6,876	6,876	6,876	11,311	
Total liabilities	113,589	111,958	110,682	107,450	102,958	100,661	98,223	101,837	
Deposits <sup>(7)</sup>	95,707	93,463	91,656	87,462	86,903	93,930	91,361	94,628	
Federal funds purchased and securities sold under agreements to repurchase	4,276	5,184	6,807	6,080	4,791	3,424	3,371	3,709	
Other short-term borrowed funds	6,253	6,715	7,702	4,950	2,251	2	2	11	
Long-term borrowed funds	4,642	2,062	1,732	1,403	1,405	1,064	732	692	
Total stockholders' equity	19,268	19,383	19,597	19,442	19,196	19,413	19,610	24,207	
Other Balance Sheet Data:									
Asset Quality Ratios:									
Allowance for loan and lease losses as a percentage of total loans and leases	1.28	% 1.32	% 1.36	% 1.45	% 1.42	% 1.43	% 1.41	% 1.42	%
Allowance for loan and lease losses as a percentage of nonperforming loans and leases	109	111	101	92	86	72	69	67	
Nonperforming loans and leases as a percentage	1.18	1.19	1.35	1.57	1.65	1.98	2.06	2.14	

of total loans  
and leases

Capital ratios:

Tier 1

risk-based capital ratio <sup>(8)</sup>	12.4	12.9	13.3	13.4	13.5	14.0	14.3	14.5
Total risk-based capital ratio <sup>(9)</sup>	15.8	16.1	16.2	16.0	16.1	16.3	16.3	16.2
Tier 1 common equity ratio <sup>(10)</sup>	12.4	12.9	13.3	13.4	13.5	13.9	14.3	14.2
Tier 1 leverage ratio <sup>(11)</sup>	10.6	10.9	11.1	11.4	11.6	12.1	11.8	12.5

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

(2) We define "Return on average common equity" as net income (loss) divided by average common equity.

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

(4) We define "Return on average total assets" as net income (loss) divided by average total assets.

(5) We define "Net interest margin" as net interest income divided by average total interest-earning assets.

(6) Excludes loans held for sale of \$281 million, \$208 million, \$262 million, \$1.4 billion, \$1.3 billion, \$307 million, \$429 million, \$550 million as of December 31, 2014, September 30, 2014, June 30, 2014, March 31, 2014, December 31, 2013, September 30, 2013, June 30, 2013, March 31, 2013, respectively.

(7) Excludes deposits held for sale of \$5.2 billion and \$5.3 billion as of March 31, 2014 and December 31, 2013, respectively.

(8) We define "Tier 1 risk-based capital ratio" as Tier 1 capital balance divided by total risk-weighted assets as defined under Basel I.

(9) We define "Total risk-based capital ratio" as total capital balance divided by total risk-weighted assets as defined under Basel I.

(10) We define "Tier 1 common equity ratio" as Tier 1 capital balance, minus preferred stock, divided by total risk-weighted assets as defined under Basel I.

(11) We define "Tier 1 leverage ratio" as Tier 1 capital balance divided by quarterly average total assets as defined under Basel I.

## Capital

As a bank holding company and a financial holding company, we are subject to regulation and supervision by the Federal Reserve Board. Our primary subsidiaries are our two insured depository institutions, Citizens Bank, National Association, ("CBNA") a national banking association whose primary federal regulator is the OCC, and Citizens Bank of Pennsylvania ("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.

Under the Basel I capital framework in effect for us at December 31, 2014, the Federal Reserve Board required us to maintain minimum levels with respect to our total risk-based capital, Tier 1 risk-based capital and Tier 1 leverage ratios. The minimum standards for the total risk-based capital ratio (the ratio of our total risk-based capital, which is the sum of our Tier 1 and Tier 2 capital, as defined by Federal Reserve Board regulation, to total risk-weighted assets) and the Tier 1 risk-based capital ratio (the ratio of our Tier 1 capital to total risk-weighted assets) were 8.0% and 4.0%, respectively. The minimum Tier 1 leverage ratio (the ratio of a banking organization's Tier 1 capital to total adjusted quarterly average total assets, as defined for regulatory purposes) was 3.0% for bank holding companies that either had the highest supervisory rating or have implemented the Federal

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Reserve Board's risk-adjusted measure for market risk. The minimum Tier 1 leverage ratio for all other bank holding companies, including our Company, was 4.0%, unless a different minimum was specified by the Federal Reserve Board.

In July 2013, the U.S. bank regulatory agencies approved final regulatory capital rules that implemented the Basel III capital framework and certain provisions of the Dodd-Frank Act. Basel III changes Tier 1 and Total capital calculations and formally established a CET1 capital ratio. Basel III also introduced new minimum capital ratios and buffer requirements and a supplementary leverage ratio; changed the composition of regulatory capital; revised the adequately capitalized minimum requirements under the Prompt Corrective Action framework; expanded and modified the risk-sensitive calculation of risk-weighted assets for credit and market risk; and introduced a standardized approach for the calculation of risk-weighted assets. We were required to comply with these rules beginning on January 1, 2015, with certain aspects of the rules phasing in through 2018. Under Basel III, the minimum standards, including the capital conservation buffer, for the total risk-based capital ratio, the CET1 ratio and the Tier 1 risk-based capital ratio are 10.5%, 7.0% and 8.5%, respectively, and the minimum Tier 1 leverage ratio is 4.0%. For further discussion of the capital rules to which we are subject, see "Regulation and Supervision" in Part I, Item 1 — Business, included elsewhere in this report.

The table below presents our regulatory capital ratios as of December 31, 2014 and 2013, respectively. Actual Basel I ratios and pro forma Basel III ratios, which include estimated impacts of fully phased-in Basel III and standardized approach risk-weighted assets requirements, remain well above the then applicable Basel I and future Basel III minima:

	Basel I			Pro Forma Basel III Standardized Approach		
	Actual	Required Minimum	Well-Capitalized Minimum for Purposes of Prompt Corrective Action	Actual <sup>(1)</sup>	Minimum + Required Capital Conservation Buffer for Non-Leverage Ratios	Well-Capitalized Minimum for Purposes of Prompt Corrective Action
December 31, 2014						
Tier 1 common equity ratio	12.4%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Tier 1 risk-based capital ratio	12.4%	4.0%	6.0%	12.1%	8.5%	8.0%
Total risk-based capital ratio	15.8%	8.0%	10.0%	15.4%	10.5%	10.0%
Tier 1 leverage ratio	10.6%	4.0%	5.0%	10.6%	4.0%	5.0%
Common equity Tier 1 capital ratio	Not Applicable	Not Applicable	Not Applicable	12.1%	7.0%	6.5%
December 31, 2013						
Tier 1 common equity ratio	13.5%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Tier 1 risk-based capital ratio	13.5%	4.0%	6.0%	13.1%	8.5%	8.0%
Total risk-based capital ratio	16.1%	8.0%	10.0%	15.7%	10.5%	10.0%
Tier 1 leverage ratio	11.6%	4.0%	5.0%	11.6%	4.0%	5.0%
Common equity Tier 1 capital ratio	Not Applicable	Not Applicable	Not Applicable	13.1%	7.0%	6.5%

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

At December 31, 2014, an increase or decrease in our regulatory capital ratios by one basis point would require a change of \$10 million in Tier 1 common equity, Tier 1 Capital or Total Capital. We could also increase our Tier 1 common equity or Tier 1 risk-based capital ratios by one basis point with a reduction in risk-weighted assets of \$76 million, or increase our Total Capital ratio by one basis point with a reduction in risk-weighted assets of \$63 million.

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## Regulatory Capital Ratios and Capital Composition

The following table presents our capital ratios under the Basel I capital framework in effect for us at December 31, 2014:

(dollars in millions)	Actual		Minimum Capital Adequacy		Classification as "Well Capitalized"			
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
December 31, 2014								
Tier 1 risk-based capital	\$13,173	12.4	% \$4,239	4.0	% \$6,358	6.0		%
Total risk-based capital	16,781	15.8	% 8,477	8.0	% 10,596	10.0		%
Tier 1 leverage	13,173	10.6	% 4,982	4.0	% 6,227	5.0		%
Risk-weighted assets	105,964							
Quarterly adjusted average assets	124,539							
December 31, 2013								
Tier 1 risk-based capital	\$13,301	13.5	% \$3,945	4.0	% \$5,918	6.0		%
Total risk-based capital	15,885	16.1	% 7,891	8.0	% 9,863	10.0		%
Tier 1 leverage	13,301	11.6	% 4,577	4.0	% 5,721	5.0		%
Risk-weighted assets	98,634							
Quarterly adjusted average assets	114,422							

Tier 1 risk-based capital was \$13.2 billion at December 31, 2014, a decrease of \$128 million compared to December 31, 2013. The decrease was primarily due to our continuing effort to bring the mix in capital in line with peer banks. In 2014, we made special dividend payments of \$666 million to RBS and repurchased common shares of \$334 million from RBS. The issuance of Tier 2 subordinated debt to RBS funded both of these transactions. We paid quarterly common dividends of \$140 million supported by net income of \$865 million. Amortization of the deferred tax liability for goodwill of \$70 million, a capital surplus increase of \$67 million due to share-based compensation transactions and disallowed servicing assets of \$5 million factored into the year over year difference.

For the year ended December 31, 2014, total risk-based capital increased \$896 million to \$16.8 billion primarily due to the issuance of Tier 2 subordinated debt to fund the special dividend payments and repurchase of common shares mentioned above, along with the aforementioned Tier 1 impacts and an elimination of the deduction for excess reserves, resulting in an increase in capital of \$27 million.

The Tier 1 leverage ratio decreased approximately 100 basis points in 2014, driven by an increase in adjusted quarterly average total assets resulting from a 60 basis point increase in commercial and a 50 basis point increase in retail automobile loan exposures, offset by a 10 basis point decrease in securities.

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The following table presents our capital composition under the Basel I capital framework in effect for us at December 31, 2014, as of:

(dollars in millions)	December 31,	
	2014	2013
Total common stockholders' equity	\$19,268	\$19,196
Goodwill	(6,876 )	(6,876 )
Deferred tax liability associated with goodwill	420	350
Other intangible assets	(6 )	(8 )
Net unrealized (gains) losses recorded in accumulated other comprehensive income, net of tax:		
Debt and marketable equity securities available for sale	(74 )	91
Derivatives	69	298
Unamortized net periodic benefit costs	377	259
Disallowed deferred tax assets	—	—
Disallowed mortgage servicing	(5 )	(9 )
Total Tier 1 common equity	13,173	13,301
Qualifying preferred stock	—	—
Trust preferred securities	—	—
Total Tier 1 capital	13,173	13,301
Qualifying long-term debt securities as Tier 2	2,350	1,350
Allowance for loan and lease losses	1,195	1,221
Allowance for credit losses for off-balance sheet exposure	61	39
Excess allowance for loan and lease losses	—	(27 )
Unrealized gains on equity securities	2	1
Total risk-based capital	\$16,781	\$15,885

Risk-weighted assets at December 31, 2014 were \$106.0 billion, an increase of \$7.3 billion as compared to December 31, 2013. The primary drivers for this change were increases in commercial and consumer auto loan exposures, which increased risk-weighted assets by \$3.8 billion and \$3.5 billion, respectively.

#### Capital Adequacy

Our assessment of capital adequacy begins with our risk appetite and risk management framework, which provides for the identification, measurement and management of material risks. Required capital is determined for actual/forecasted risk portfolios using applicable regulatory capital methodologies, including estimated impacts of approved and proposed regulatory changes that will or may apply to future periods. Key analytical frameworks, which enable the comprehensive assessment of capital adequacy versus unexpected loss, supplement our base case forecast. These supplemental frameworks include Integrated Stress Testing, as well as an Internal Capital Adequacy Requirement that builds on internally assessed Economic Capital requirements. A robust governance framework supports our capital planning process. This process includes capital management policies and procedures that document capital adequacy metrics and limits, as well as our comprehensive capital contingency plan, and the active engagement of both the legal-entity boards and senior management in oversight and decision-making.

Forward-looking assessments of capital adequacy for us and for our banking subsidiaries feed development of capital plans that are submitted to the Federal Reserve Board and other bank regulators. We prepare these plans in full compliance with the Federal Reserve Board's Capital Plan Rule and participate in the Federal Reserve Board's annual CCAR stress-testing process. Both our banking subsidiaries and we also participate in semiannual stress tests required by the Dodd-Frank Act. The Federal Reserve Board may either object to our capital plan, in whole or in part, or provide a notice of non-objection. If the Federal Reserve Board objects to our capital plan, we may not make any capital distribution other than those with respect to which the Federal Reserve Board has indicated its non-objection.



Beginning with 2013, our annual capital plans have included special transactions intended to optimize the level and mix of our regulatory capital to improve overall shareholder return and better align with the capital profiles of our peers. From the

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second quarter of 2013 through the fourth quarter of 2014, these special transactions reduced common equity by \$2.0 billion and increased Tier 2 subordinated debt by \$2.0 billion, with no impact on either the level of total regulatory capital or the total risk-based capital ratio. The last of these transactions was executed on October 8, 2014, when we repurchased \$334 million of common shares from RBS and issued \$334 million of Tier 2 subordinated debt to RBSG. We anticipate that our strategy of capital optimization will continue. Subject to regulatory approval and market conditions, we intend to purchase an additional \$500 million to \$750 million of our shares of common stock in 2015 and 2016, which may include purchases from RBSG, and we may continue to pair these repurchases with issuances of preferred stock, subordinated debt, or senior debt.

In March 2014, the Federal Reserve Board objected on qualitative grounds to our capital plan submitted as part of the CCAR process. Although we were permitted to continue capital actions at a level consistent with those executed in 2013, we are not permitted to increase our capital distributions above 2013 levels until the Federal Reserve Board approves a new capital plan. Consistent with the Federal Reserve Board's annual CCAR requirement, we submitted a new capital plan on January 5, 2015 and expect to receive the Federal Reserve Board's decision on future actions by March 11, 2015.

During 2014, we completed the following capital actions:

- paid common dividends aggregating \$25 million, \$10 million, \$50 million and \$55 million (\$0.10 per share) in the first, second, third and fourth quarter of 2014, respectively;
- paid a special common dividend of \$333 million to RBS and issued \$333 million of 10-year subordinated debt (4.153% fixed rate subordinated debt due July 1, 2024) to RBSG in the second quarter of 2014;
- paid a special common dividend of \$333 million to RBS and issued \$333 million of 10-year subordinated debt (4.023% fixed rate subordinated debt due October 1, 2024) to RBSG in the third quarter of 2014; and
- repurchased 14,297,761 shares of our common equity from RBS at a price of \$23.36 per share, aggregating to \$334 million, and issued \$334 million of 10-year subordinated debt (4.082% fixed subordinated debt due January 31, 2025) to RBSG in the fourth quarter of 2014.

During 2013, we completed the following capital actions:

- paid common dividends of \$40 million, \$55 million, \$50 million and \$40 million in the first, second, third and fourth quarters of 2013, respectively;
- redeemed \$289 million of floating rate junior subordinated deferrable interest debentures due March 4, 2034 from our special purpose subsidiary, which caused the redemption of \$280 million of our trust preferred securities from RBSG in the second quarter of 2013;
- through Citizens Bank of Pennsylvania, we redeemed \$10 million of floating rate junior subordinated deferrable interest debentures due April 22, 2032, which caused redemption of \$10 million of our trust preferred securities from third parties in the fourth quarter of 2013;
- paid a special common dividend of \$333 million and issued \$333 million of 10-year subordinated debt (5.158% fixed-to-floating rate callable subordinated debt due June 29, 2023) to RBS in the second quarter of 2013;
- paid a special common dividend of \$333 million to RBS and issued \$333 million of 10-year subordinated debt (4.771% fixed rate subordinated debt due October 1, 2023) to RBSG in the third quarter of 2013; and
- paid a special common dividend of \$334 million to RBS and issued \$334 million of 10-year subordinated debt (4.691% fixed rate subordinated debt due January 2, 2024) to RBSG in the fourth quarter of 2013.

After execution of these actions, both common equity Tier 1 and Tier 1 capital, calculated using fully phased-in Basel III definitions, were 12.1% as of December 31, 2014, well above their respective Basel III minima, including the capital conservation buffer, of 7.0% and 8.5%, respectively. Our pro forma Basel III total risk-based capital ratio after giving effect to all Basel III impacts also remained strong at 15.4% versus the Basel III minimum, including the capital conservation buffer, of 10.5%. These pro forma Basel III ratios are non-GAAP financial measures. For more information on computation of these non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures.”



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Banking Subsidiaries' Capital

The following table presents our banking subsidiaries' capital ratios under the Basel I capital framework in effect for us at December 31, 2014:

(dollars in millions)	December 31, 2014		December 31, 2013	
	Amount	Ratio	Amount	Ratio
Citizens Bank, N.A.				
Tier 1 risk-based capital	\$10,406	12.2 %	\$10,401	12.9 %
Total risk-based capital	12,584	14.8 %	11,666	14.5 %
Tier 1 leverage	10,406	10.9 %	10,401	11.7 %
Citizens Bank of Pennsylvania				
Tier 1 risk-based capital	\$2,967	14.1 %	\$3,195	17.1 %
Total risk-based capital	3,494	16.6 %	3,400	18.2 %
Tier 1 leverage	2,967	9.5 %	3,195	11.6 %

CBNA Tier 1 risk-based capital ratio declined 70 basis points to 12.2% and the total risk-based capital ratio increased 30 basis points to 14.8% as compared to December 31, 2013. The decline in the Tier 1 risk-based capital ratio reflected an increase of \$5.0 billion in risk-weighted assets for the year ended December 31, 2014, attributable to growth in the consumer auto and commercial business lines of \$2.3 billion and \$3.4 billion, respectively, partially offset by runoff in consumer home equity products.

CBNA Tier 1 capital, at \$10.4 billion, was flat compared with December 31, 2013, reflecting increases due to net income of \$820 million, the amortization of the deferred tax liability for goodwill of \$23 million, and a minor movement in disallowed servicing assets of \$4 million. These increases were largely offset by decreases due to return of permanent capital of \$660 million, which was part of an exchange of permanent capital for Tier 2 subordinated debt now held by us, the payment of quarterly common dividends/returns of \$160 million, and other deductions from Tier 1 capital of \$21 million.

CBNA Total capital increased \$918 million as compared to December 31, 2013, due to the issuance of \$250 million of new Tier 2 subordinated debt, which was not associated with an exchange of permanent capital, and the neutrality to total capital of the return of \$660 million of permanent capital that was offset by the issuance of Tier 2 subordinated debt. Other than these factors, the increase in total capital reflected the same factors as Tier 1 capital as well as a decrease in the allowance for credit losses of \$25 million and other deductions from Tier 2 capital of \$21 million.

CBPA Tier 1 risk-based capital ratio declined 300 basis points to 14.1% at December 31, 2014 and the total risk-based capital ratio declined 160 basis points to 16.6%, as compared to December 31, 2013. The decline in the Tier 1 risk-based capital ratio reflected an increase of \$2.4 billion in risk-weighted assets for the year ended December 31, 2014, attributable to growth in retail automobile, residential mortgage and commercial loans and leases of \$1.2 billion, \$884 million and \$378 million, respectively.

CBPA Tier 1 capital, at \$3.0 billion, decreased \$228 million as compared to December 31, 2013, reflecting increases due to net income of \$178 million and the amortization of the deferred tax liability for goodwill of \$47 million. These increases were more than offset by the return to us of permanent capital of \$300 million, which was part of an exchange of permanent capital for Tier 2 subordinated debt now held by us, and the payment of quarterly common dividends of \$155 million.

CBPA Total capital increased \$94 million, as compared to December 31, 2013, due to the same factors impacting Tier 1 capital, with two exceptions: the special dividends of \$300 million that were offset by issuance of Tier 2 subordinated debt was neutral to total capital, while total capital increased due to an increase in the allowance for credit losses of \$22 million.

Because of the goodwill impairment recognized by CBNA in the second quarter of 2013, CBNA must request specific approval from the OCC before executing capital distributions. This requirement will remain in place through the

fourth quarter of 2015. However, as of December 31, 2014, irrespective of the ability of our subsidiary banks to pay dividends, on a non-consolidated basis we had liquid assets in excess of \$340 million compared to an annual interest burden on existing subordinated debt of approximately \$104 million.

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Liquidity

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

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

CFG Liquidity

Our primary sources of cash are (i) dividends and interest received from our banking subsidiaries as a result of investing in bank equity and subordinated debt and (ii) externally issued subordinated debt (\$350 million). Our uses of liquidity include the following: (i) routine cash flow requirements as a bank holding company, including payments of dividends, interest and expenses; (ii) needs of subsidiaries, including our banking subsidiaries, for additional equity and, as required, their needs for debt financing; and (iii) extraordinary requirements for cash, such as acquisitions.

During 2014 we exchanged Tier 1 common equity for Tier 2 subordinated debt, in the amount of \$1.0 billion. We will continue our strategy to optimize capital, which could include additional purchases of our common stock and/or issuances of preferred stock, subordinated debt, or senior debt. As we increase subordinated debt in exchange for common equity, our funding costs will increase to reflect the incremental debt service. Any issuance of preferred equity would reduce net income available to common stockholders but improve ROTCE.

Our cash and cash equivalents represent a source of liquidity that can be used to meet various needs. As of December 31, 2014 and 2013, we held cash and cash equivalents of \$340 million and \$494 million, respectively. This should be viewed as a liquidity reserve.

Our liquidity risk is low for four reasons. First, we have no material non-banking subsidiaries, and our banking subsidiaries are self-funding. Second, we have no outstanding senior debt at the CFG level. Third, the capital structures of our banking subsidiaries are similar to our capital structure. As of December 31, 2014, our double leverage ratio (the combined equity of our subsidiaries divided by our equity) was 101.7%