CITIZENS FINANCIAL GROUP INC/RI
Form 10-Q
May 09, 2018

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

For the Quarterly Period Ended
March 31, 2018

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

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

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

One Citizens Plaza, Providence, RI 02903
(Address of principal executive offices, including zip code)
(401) 456-7000
(Registrant's telephone number, including area code)
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.
[ü] Yes [ ] No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
[ü] Yes [ ] No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ] Yes [ü] No
There were 484,726,571 shares of Registrant's common stock ($0.01 par value) outstanding on May 1, 2018.

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CITIZENS FINANCIAL GROUP, INC.

GLOSSARY OF ACRONYMS AND TERMS

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

AFS	Available for Sale
ALLL	Allowance for Loan and Lease Losses
AOCI	Accumulated Other Comprehensive Income (Loss)
ASU	Accounting Standards Update
ATM	Automated Teller Machine
Board of Directors	The Board of Directors of Citizens Financial Group, Inc.
bps	Basis Points
C&I	Commercial and Industrial
Capital Plan Rule	Federal Reserve's Regulation Y Capital Plan Rule
CBNA	Citizens Bank, National Association
CBPA	Citizens Bank of Pennsylvania
CCAR	Comprehensive Capital Analysis and Review
CCB	Capital Conservation Buffer
CET1	Common Equity Tier 1
Citizens or CFG or the Company	Citizens Financial Group, Inc. and its Subsidiaries
CLTV	Combined Loan to Value
CMO	Collateralized Mortgage Obligation
CRE	Commercial Real Estate
DFAST	Dodd-Frank Act Stress Test
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EPS	Earnings Per Share
Exchange Act	The Securities Exchange Act of 1934
Fannie Mae (FNMA)	Federal National Mortgage Association
FASB	Financial Accounting Standards Board
FDIA	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation (credit rating)
FRB	Board of Governors of the Federal Reserve System and, as applicable, Federal Reserve Bank(s)
Freddie Mac (FHLMC)	Federal Home Loan Mortgage Corporation
FTP	Funds Transfer Pricing
GAAP	Accounting Principles Generally Accepted in the United States of America
Ginnie Mae (GNMA)	Government National Mortgage Association
HELOC	Home Equity Line of Credit
HTM	Held To Maturity
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LIHTC	Low Income Housing Tax Credit
LTV	Loan to Value
MBS	Mortgage-Backed Securities

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

MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MSRs	Mortgage Servicing Rights
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
NM	Not meaningful
NSFR	Net Stable Funding Ratio
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income (Loss)
Parent Company	Citizens Financial Group, Inc. (the Parent Company of Citizens Bank of Pennsylvania, Citizens Bank, National Association and other subsidiaries)
PD	Probability of Default
ROTCE	Return on Average Tangible Common Equity
RPA	Risk Participation Agreement
SBO	Serviced by Others portfolio
SEC	United States Securities and Exchange Commission
SVaR	Stressed Value at Risk
TBAs	To-Be Announced securities
TDR	Troubled Debt Restructuring
VaR	Value at Risk
VIE	Variable Interest Entities

CITIZENS FINANCIAL GROUP, INC.

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

INTRODUCTION

Citizens Financial Group, Inc. is one of the nation's oldest and largest financial institutions with $153.5 billion in assets as of March 31, 2018. Our mission is to help our customers, colleagues and communities reach their potential. Headquartered in Providence, Rhode Island, we offer a broad range of retail and commercial banking products and services to individuals, small businesses, middle-market companies, large corporations and institutions. We help our customers reach their potential by listening to them and by understanding their needs in order to offer tailored advice, ideas and solutions. In Consumer Banking, we provide an integrated experience that includes mobile and online banking, a 24/7 customer contact center and the convenience of approximately 3,300 ATMs and approximately 1,150 branches in 11 states in the New England, Mid-Atlantic and Midwest regions. Consumer Banking products and services include a full range of banking, lending, savings, wealth management and small business offerings. In Commercial Banking, we offer corporate, institutional and not-for-profit clients a full range of wholesale banking products and services including lending and deposits, capital markets, treasury services, foreign exchange and interest rate products, and asset finance. More information is available at www.citizensbank.com.

The following MD&A is intended to assist readers in their analysis of the accompanying unaudited interim Consolidated Financial Statements and supplemental financial information. It should be read in conjunction with the unaudited interim Consolidated Financial Statements and Notes to the unaudited interim Consolidated Financial Statements in Item 1 of this Form 10-Q, as well as other information contained in this document and our Annual Report on Form 10-K for the year ended December 31, 2017.

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

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

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

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

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

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

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

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

Non-GAAP measures are denoted throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" by the use of the term "Underlying" and/or are followed by an asterisk (*).

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

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

FINANCIAL PERFORMANCE

First Quarter 2018 compared with First Quarter 2017 - Key Highlights

First quarter 2018 net income of $388 million increased 21% from $320 million in first quarter 2017, with earnings per diluted common share of $0.78, up 28% from $0.61 per diluted common share in first quarter 2017. First quarter 2018 ROTCE of 11.7% improved from 9.7% in first quarter 2017.

There were no notable items recorded in first quarter 2018.* The following table presents results for first quarter 2017, including a $23 million benefit, or $0.04 per diluted common share, related to the settlement of certain state tax matters:

	Three Months Ended March 31,			
	2018		2017	
(in millions)	Income tax expense	Net Income	Income tax expense	Net Income
Reported results (GAAP)	$113	$388	$114	$320
Less Notable items: Settlement of certain state tax matters	—	—	(23)	23
Underlying results (Non-GAAP)	$113	$388	$137	$297

* "Underlying" results, as applicable, exclude a first quarter 2017 $23 million benefit related to the settlement of certain state tax matters. Where there is a reference to "Underlying" results in a paragraph, all measures that follow these references are on the same basis when applicable. For more information on the computation of key performance metrics and non-GAAP financial measures, see "—Introduction — Key Performance Metrics Used By Management and Non-GAAP Financial Measures" and "—Key Performance Metrics, Non-GAAP Financial Measures and Reconciliations."

- Net income available to common stockholders of $381 million increased $68 million, or 22%, compared to $313 million in first quarter 2017.
  On an Underlying basis,* excluding a first quarter 2017 $23 million impact from the settlement of certain tax matters, net income available to common shareholders increased by 31%, led by 6% revenue growth with 9% growth in net interest income, given a 3% average loan growth and a 20 basis point increase in net interest margin.
- Generated operating leverage of 2% and ROTCE of 11.7%, despite the impact of continued investing to drive future growth.
  On an Underlying basis,* ROTCE improved 2.7% from 9.0%.
- Return on average common equity was 7.8% compared to 6.5% for first quarter 2017.
  On an Underlying basis,* return on average common equity improved 178 bps from 6.1% for first quarter 2017.
- Diluted earnings per common share increased $0.17, or 28%.
  On an Underlying basis,* diluted earnings per share increased $0.21, or 37%.
- Tangible book value per common share improved 5% to $27.24. Fully diluted average common shares outstanding decreased by 22.1 million shares.
- Total revenue of $1.5 billion increased $78 million, or 6%, driven by strong net interest income growth:
  Net interest income of $1.1 billion increased $86 million, or 9%, compared to $1.0 billion in first quarter 2017, driven by a 20 basis point improvement in net interest margin and 3% average loan growth.
  Net interest margin of 3.16% increased 20 basis points, compared to 2.96% in first quarter 2017, reflecting higher interest-earning asset yields tied to higher interest rates and improving loan mix towards higher-return categories, partially offset by higher deposit and funding costs.
  Noninterest income of $371 million decreased $8 million, or 2%, from first quarter 2017, driven by a $9 million decrease in capital market fees from near-record first quarter 2017 levels, as well as lower other income.

- Noninterest expense of $883 million increased $29 million, or 3%, compared to $854 million in first quarter 2017. Results reflect higher salaries and employee benefits cost, largely reflecting annual merit increases, increased stock-based compensation costs and revenue-driven incentives and the impact of strategic growth initiatives, as well as higher outside services expense largely tied to Consumer Banking strategic growth initiatives.
- Provision for credit losses of $78 million decreased $18 million, or 19%, from $96 million in first quarter 2017, despite the impact the of an $8 million reserve build, reflecting lower commercial net charge-offs, partially offset by expected seasoning in retail portfolios.
- The income tax rate decreased to 22.5% from 26.4% in first quarter 2017. The decrease in the effective income tax rate was primarily driven by the impact of tax reform, partially offset by the prior year settlement of certain state tax matters.

On an Underlying basis,* the effective income tax rate decreased to 22.5% from 31.6% in first quarter 2017.

- Net charge-offs of $70 million decreased $17 million, or 20%, from $87 million in first quarter 2017. The ALLL of $1.2 billion increased $10 million compared to December 31, 2017. ALLL to total loans and leases of 1.12% as of March 31, 2018 remained stable compared to December 31, 2017. ALLL to nonperforming loans and leases ratio was 144% as of March 31, 2018, compared with 142% as of December 31, 2017.
- Average loans and leases of $111.1 billion increased $3.1 billion, or 3%, from $108.1 billion in first quarter 2017, reflecting a $2.5 billion increase in retail loans and a $589 million increase in commercial loans and leases.
- Average deposits of $113.4 billion increased $3.5 billion, or 3%, from $110.0 billion in first quarter 2017, reflecting strength in term, checking with interest, savings and demand deposits.

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

SELECTED CONSOLIDATED FINANCIAL DATA

The summary Consolidated Operating Data for the three months ended March 31, 2018 and 2017 and the summary Consolidated Balance Sheet data as of March 31, 2018 and December 31, 2017 are derived from our unaudited interim Consolidated Financial Statements, included in Part I, Item 1 — Financial Statements of this report. Our historical results are not necessarily indicative of the results expected for any future period.

Our unaudited interim Consolidated Financial Statements have been prepared on the same basis as the audited Consolidated Financial Statements and include all adjustments, consisting of normal recurring adjustments, necessary for the fair presentation of the information set forth herein. Our operating results for the three months ended March 31, 2018 are not necessarily indicative of those to be expected for the year ending December 31, 2018 or for any future period. The following selected consolidated financial data should be read in conjunction with our unaudited interim Consolidated Financial Statements and the Notes thereto.

	Three Months Ended March 31,			
(dollars in millions, except per-share amounts)	2018		2017	
OPERATING DATA:				
Net interest income	$1,091		$1,005	
Noninterest income	371		379	
Total revenue	1,462		1,384	
Provision for credit losses	78		96	
Noninterest expense	883		854	
Income before income tax expense	501		434	
Income tax expense	113		114	
Net income	$388		$320	
Net income available to common stockholders	$381		$313	
Net income per common share - basic	$0.78		$0.61	
Net income per common share - diluted	$0.78		$0.61	
OTHER OPERATING DATA:				
Return on average common equity	7.83	%	6.52	%
Return on average tangible common equity	11.71		9.68	
Return on average total assets	1.04		0.87	
Return on average total tangible assets	1.08		0.91	
Efficiency ratio	60.43		61.68	
Operating leverage	2.14		6.86	
Net interest margin	3.16		2.96	
Effective income tax rate	22.52		26.36	

CITIZENS FINANCIAL GROUP, INC.
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(dollars in millions)	March 31, 2018	December 31, 2017
BALANCE SHEET DATA:		
Total assets	$153,453	$152,336
Loans held for sale, at fair value	478	497
Other loans held for sale	322	221
Loans and leases	111,425	110,617
Allowance for loan and lease losses	(1,246)	(1,236)
Total securities	25,433	25,733
Goodwill	6,887	6,887
Total liabilities	133,394	132,066
Total deposits	115,730	115,089
Federal funds purchased and securities sold under agreements to repurchase	315	815
Other short-term borrowed funds	1,494	1,856
Long-term borrowed funds	13,486	11,765
Total stockholders' equity	20,059	20,270
OTHER BALANCE SHEET DATA:		
Asset Quality Ratios:		
Allowance for loan and lease losses as a percentage of total loans and leases	1.12 %	1.12 %
Allowance for loan and lease losses as a percentage of nonperforming loans and leases	144	142
Nonperforming loans and leases as a percentage of total loans and leases	0.78	0.79
Capital Ratios:		
CET1 capital ratio [1]	11.2 %	11.2 %
Tier 1 capital ratio [2]	11.4	11.4
Total capital ratio [3]	13.9	13.9
Tier 1 leverage ratio [4]	10.0	10.0

[1] "Common equity tier 1 capital ratio" represents CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
[2] "Tier 1 capital ratio" is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital,
divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
[3] "Total capital ratio" is total capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
[4] "Tier 1 leverage ratio" is tier 1 capital divided by quarterly average total assets as defined under U.S. Basel III Standardized approach.

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

RESULTS OF OPERATIONS

Net Income

Net income totaled $388 million, up $68 million, or 21%, from $320 million in first quarter 2017. The following table presents the significant components of our net income:

	Three Months Ended March 31,								
(dollars in millions)	2018		2017		Change		Percent		
Operating Data:									
Net interest income	$1,091		$1,005		$86		9		%
Noninterest income	371		379		(8	)	(2		)
Total revenue	1,462		1,384		78		6		
Provision for credit losses	78		96		(18	)	(19		)
Noninterest expense	883		854		29		3		
Income before income tax expense	501		434		67		15		
Income tax expense	113		114		(1	)	(1		)
Net income	$388		$320		$68		21		
Net income available to common stockholders	$381		$313		$68		22		%
Return on average common equity	7.83	%	6.52	%	131	bps			
Return on average tangible common equity	11.71	%	9.68	%	203	bps			

Net Interest Income

Net interest income is our largest source of revenue and is the difference between the interest earned on interest-earning assets (usually loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (usually deposits and borrowings). The level of net interest income is primarily a function of the average balance of interest-earning assets, the average balance of interest-bearing liabilities and the spread between the effective yield on such assets and the effective cost of such liabilities. These factors are influenced by the pricing and mix of interest-earning assets and interest-bearing liabilities which, in turn, are impacted by external factors such as local economic conditions, competition for loans and deposits, the monetary policy of the FRB and market interest rates. For further discussion, refer to "—Market Risk — Non-Trading Risk," included in this report and "—Risk Governance" as described in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

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

	Three Months Ended March 31,							
	2018			2017			Change	
(dollars in millions)	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Yields/ Rates
Assets								
Interest-bearing cash and due from banks and deposits in banks	$1,442	$6	1.61 %	$1,965	$3	0.63 %	($523)	98 bps
Taxable investment securities	25,433	168	2.64	25,789	160	2.48	(356)	16
Non-taxable investment securities	6	—	2.60	7	—	2.60	(1)	—
Total investment securities	25,439	168	2.64	25,796	160	2.48	(357)	16
Commercial	37,960	357	3.77	37,517	312	3.33	443	44
Commercial real estate	11,549	119	4.11	10,821	87	3.21	728	90
Leases	3,114	20	2.61	3,696	23	2.47	(582)	14
Total commercial	52,623	496	3.77	52,034	422	3.24	589	53
Residential mortgages	17,162	153	3.56	15,285	136	3.55	1,877	1
Home equity loans	1,342	19	5.76	1,793	25	5.66	(451)	10
Home equity lines of credit	13,353	138	4.20	13,955	118	3.43	(602)	77
Home equity loans serviced by others	520	9	7.31	719	13	7.02	(199)	29
Home equity lines of credit serviced by others	142	1	3.98	207	2	3.75	(65)	23
Automobile	13,015	112	3.47	13,772	107	3.16	(757)	31
Education	8,283	114	5.58	6,837	88	5.23	1,446	35
Credit cards	1,828	48	10.70	1,665	46	11.16	163	(46)
Other retail	2,847	56	7.97	1,798	35	7.94	1,049	3
Total retail	58,492	650	4.49	56,031	570	4.11	2,461	38
Total loans and leases	111,115	1,146	4.15	108,065	992	3.69	3,050	46
Loans held for sale, at fair value	420	4	3.84	510	4	3.31	(90)	53
Other loans held for sale	255	4	6.21	74	1	6.62	181	(41)
Interest-earning assets	138,671	1,328	3.85	136,410	1,160	3.42	2,261	43
Allowance for loan and lease losses	(1,236)			(1,235)			(1)	
Goodwill	6,887			6,876			11	
Other noninterest-earning assets	7,201			6,735			466	
Total assets	$151,523			$148,786			$2,737	
Liabilities and Stockholders' Equity								
Checking with interest	$21,665	$26	0.48 %	$20,699	$13	0.26 %	$966	22 bps
Money market accounts	37,084	65	0.71	37,874	41	0.44	(790)	27
Regular savings	9,627	1	0.05	9,110	1	0.04	517	1
Term deposits	16,503	53	1.30	14,173	31	0.89	2,330	41
Total interest-bearing deposits	84,879	145	0.69	81,856	86	0.43	3,023	26
Federal funds purchased and securities sold under agreements to repurchase [1]	645	1	0.68	882	1	0.24	(237)	44
Other short-term borrowed funds	1,481	9	2.40	2,963	8	1.05	(1,482)	135
Long-term borrowed funds	13,549	82	2.44	12,412	60	1.94	1,137	50
Total borrowed funds	15,675	92	2.36	16,257	69	1.68	(582)	68
Total interest-bearing liabilities	100,554	237	0.95	98,113	155	0.64	2,441	31
Demand deposits	28,544			28,098			446	
Other liabilities	2,446			2,868			(422)	
Total liabilities	131,544			129,079			2,465	

Stockholders’ equity	19,979				19,707				272	
Total liabilities and stockholders’ equity	$151,523				$148,786				$2,737	
Interest rate spread			2.90	%			2.78	%		12
Net interest income		$1,091				$1,005				
Net interest margin			3.16	%			2.96	%		20 bps
Memo: Total deposits (interest-bearing and demand)	$113,423	$145	0.52	%	$109,954	$86	0.32	%	$3,469	20 bps

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Net interest income of $1.1 billion increased $86 million, or 9%, compared to $1.0 billion in first quarter 2017, reflecting 3% average loan growth and a 20 basis point improvement in net interest margin.

Average interest-earning assets of $138.7 billion increased $2.3 billion, or 2%, from first quarter 2017, driven by a $589 million increase in average commercial loans and leases and a $2.5 billion increase in average retail loans, partially offset by an $880 million decrease in average investments and interest-bearing cash and due from banks and deposits in banks. Commercial loan growth was driven by strength in commercial and commercial real estate. Retail loan growth was driven by strength in residential mortgages, education, and other retail.

Average deposits of $113.4 billion increased $3.5 billion from first quarter 2017, reflecting growth in term deposits, checking with interest, savings and demand deposits, partially offset by a decrease in money market deposits. Total interest-bearing deposit costs of $145 million increased $59 million, or 69%, from $86 million in first quarter 2017, primarily due to the impact of rising rates and a shift in mix toward commercial deposits.

Average total borrowed funds of $15.7 billion decreased $582 million from first quarter 2017, reflecting a decrease in other short-term borrowed funds and a decrease in federal funds purchased and repurchase agreements, partially offset by an increase in average long-term borrowed funds, primarily senior debt. Total borrowed funds costs of $92 million increased $23 million from first quarter 2017. The total borrowed funds yield of 2.36% increased 68 basis points from 1.68% in first quarter 2017 due to an increase in long-term rates and a mix shift to long-term senior debt.

Net interest margin of 3.16% increased 20 basis points compared to 2.96% in first quarter 2017, driven by higher interest-earning asset yields given higher interest rates and continued mix shift toward higher-yielding assets. These results were partially offset by the impact of higher deposit and funding costs. Average interest-earning asset yields of 3.85% increased 43 basis points from 3.42% in first quarter 2017, while average interest-bearing liability costs of 0.95% increased 31 basis points from 0.64% in first quarter 2017.

Noninterest Income

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

	Three Months Ended March 31,			
(in millions)	2018	2017	Change	Percent
Service charges and fees	$124	$125	($1)	(1%)
Card fees	61	60	1	2
Capital markets fees	39	48	(9)	(19)
Trust and investment services fees	40	39	1	3
Letter of credit and loan fees	30	29	1	3
Foreign exchange and interest rate products	27	27	—	—
Mortgage banking fees	25	23	2	9
Securities gains, net	8	4	4	100
Other income [1]	17	24	(7)	(29)
Noninterest income[2]	$371	$379	($8)	(2%)

[1] Includes net securities impairment losses on debt securities available for sale recognized in earnings, bank-owned life insurance income and other income.

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

Noninterest income of $371 million decreased $8 million, or 2%, from first quarter 2017, largely driven by a $9 million reduction in capital market fees, primarily reflecting seasonality and an overall market reduction in middle market loan syndication activity, as well as a $7 million decrease in other income, partially offset by a $4 million increase in net securities gains and a $2 million increase in mortgage banking fees.

We adopted ASU 2014-09, Revenue From Contracts With Customers (Topic 606), on January 1, 2018 under the modified retrospective method. Adoption of the new standard did not result in a change in the timing or amount of revenue recognized from contracts with customers.

Provision for Credit Losses

The provision for credit losses of $78 million decreased $18 million from $96 million in first quarter 2017, reflecting the impact of continued improvement in overall credit quality and a decline in total net charge-offs, partially offset by the impact of loan growth. First quarter 2018 results reflected an $8 million reserve build, compared to a $9 million reserve build in first quarter 2017, largely due to loan volume growth, partially offset by the shift in asset mix toward lower risk retail loans. Net charge-offs of $70 million were $17 million lower than first quarter 2017, primarily reflecting lower commercial losses.

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

Noninterest Expense

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

	Three Months Ended March 31,			
(in millions)	2018	2017	Change	Percent
Salaries and employee benefits[1]	$470	$446	$24	5 %
Outside services	99	91	8	9
Occupancy	81	82	(1)	(1)
Equipment expense	67	67	—	—
Amortization of software	46	44	2	5
Other operating expense[1]	120	124	(4)	(3)
Noninterest expense	$883	$854	$29	3 %

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

Noninterest expense of $883 million increased $29 million, or 3%, from first quarter 2017, reflecting an increase in salaries and employee benefits driven by higher revenue-based incentives and merit increases. First quarter 2018 also reflected an increase in outside service costs given investment in strategic initiatives as well as higher amortization of software, partially offset by lower other operating expense, compared to first quarter 2017.

As of January 1, 2018, we retrospectively adopted ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires the service cost component of net periodic pension and postretirement benefit cost to be reported separately in the Consolidated Statements of Operations from the other components. The adoption resulted in the presentation of the service cost component of net periodic pension cost in salaries and employee benefits and all other components of net periodic pension cost in other operating expense. Prior periods have been adjusted to conform with the current period presentation.

Income Tax Expense

Income tax expense was $113 million and $114 million in first quarter 2018 and 2017, respectively. Our effective tax rates in first quarter 2018 and 2017 were 22.5% and 26.4%, respectively. The decrease in the effective income tax rate was primarily driven by the impact of tax reform, partially offset by the prior year settlement of certain state tax matters.

At March 31, 2018, our net deferred tax liability was $475 million, compared with $571 million at December 31, 2017. The decrease in the net deferred tax liability was primarily attributable to the tax effect of net unrealized losses on securities and derivatives. For further discussion, see Note 15 "Income Taxes" to our unaudited interim Consolidated

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

Business Operating Segments

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

	As of and for the Three Months Ended March 31, 2018			
(dollars in millions)	Consumer Banking	Commercial Banking	Other[4]	Consolidated
Net interest income [1]	$733	$357	$1	$1,091
Noninterest income	222	125	24	371
Total revenue	955	482	25	1,462
Noninterest expense	656	208	19	883
Profit before provision for credit losses	299	274	6	579
Provision for credit losses	72	(4)	10	78
Income (loss) before income tax expense (benefit)	227	278	(4)	501
Income tax expense (benefit)	57	63	(7)	113
Net income	$170	$215	$3	$388
Loans and leases (period-end) [2]	$59,795	$49,868	$2,562	$112,225
Average Balances:				
Total assets	$61,348	$50,393	$39,782	$151,523
Total loans and leases [2]	59,942	49,285	2,563	111,790
Deposits	75,416	30,766	7,241	113,423
Interest-earning assets	59,994	49,479	29,198	138,671
Key Performance Metrics:				
Net interest margin [3]	4.96 %	2.93 %	NM	3.16 %
Efficiency ratio	68.72	43.07	NM	60.43
Loans-to-deposits ratio (average balances)[2]	79.48	160.19	NM	98.56
Return on average total tangible assets [3]	1.12	1.73	NM	1.08

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

[2] Includes loans held for sale.

[3] Ratios for the period ended March 31, 2018 are presented on an annualized basis.

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

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	As of and for the Three Months Ended March 31, 2017			
(dollars in millions)	Consumer Banking	Commercial Banking	Other[3]	Consolidated
Net interest income	$638	$346	$21	$1,005
Noninterest income	220	134	25	379
Total revenue	858	480	46	1,384
Noninterest expense	647	190	17	854
Profit before provision for credit losses	211	290	29	530
Provision for credit losses	64	19	13	96
Income before income tax expense (benefit)	147	271	16	434
Income tax expense (benefit)	52	91	(29)	114
Net income	$95	$180	$45	$320
Loans and leases (period-end) [1]	$57,494	$48,013	$3,273	$108,780
Average Balances:				
Total assets	$58,660	$49,243	$40,883	$148,786
Total loans and leases [1]	57,309	48,154	3,186	108,649
Deposits	74,133	28,973	6,848	109,954
Interest-earning assets	57,361	48,283	30,766	136,410
Key Performance Metrics				
Net interest margin [2]	4.51 %	2.91 %	NM	2.96 %
Efficiency ratio	75.41	39.80	NM	61.68
Loans-to-deposits ratio (average balances)[1]	77.31	166.20	NM	98.81
Return on average total tangible assets [2]	0.66	1.48	NM	0.91

[1] Includes loans held for sale.
[2] Ratios for the period ended March 31, 2017 are presented on an annualized basis.
[3] Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses, including income tax expense, not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see "—Analysis of Financial Condition — Allowance for Credit Losses and Nonperforming Assets — Non-Core Assets."

We operate through two business operating segments: Consumer Banking and Commercial Banking. Segment results are derived by specifically attributing managed assets, liabilities, capital and their related revenues, provision for credit losses and expenses. Non-segment operations are classified as Other, which includes corporate functions, the Treasury function, the securities portfolio, wholesale funding activities, intangible assets, community development, non-core assets (including legacy Royal Bank of Scotland Group plc aircraft loan and leasing), and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses, including income tax expense. For a description of non-core assets, see "—Analysis of Financial Condition — Allowance for Credit Losses and Nonperforming Assets — Non-Core Assets." In addition, Other includes goodwill and any associated goodwill impairment charges. For impairment testing purposes, we allocate goodwill to Consumer Banking and Commercial Banking reporting units. For management reporting purposes, we present the goodwill balance (and any related impairment charges) in Other.
Our capital levels are evaluated and managed centrally, however, capital is allocated to the business operating segments to support evaluation of business performance. Business operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. Interest income and expense is determined based on the assets and liabilities managed by the business operating segment. Because funding and asset

liability management is a central function, funds transfer pricing (“FTP”) methodologies are utilized to allocate a cost of funds used, or credit for the funds provided, to all business operating segment assets, liabilities and capital, respectively, using a matched-funding concept. The residual effect on net interest income of asset/liability management, including the residual net interest income related to the FTP process, is included in Other. We periodically evaluate and refine our methodologies used to measure financial performance of our business operating segments. In the first quarter of 2018, we enhanced our assumptions for the liquidity and deposit components within our FTP methodology. The enhancement largely provides increased credit for the stability of deposit composition, and an increased charge for unused commitments under lending arrangements. Prior periods have not been adjusted for this change.

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

Noninterest income and expense directly managed by each business operating segment, including fees, service charges, salaries and benefits, and other direct revenues and costs are accounted for within each business operating segment’s financial results in a manner similar to our unaudited interim Consolidated Financial Statements. Occupancy costs are allocated based on utilization of facilities by each business operating segment. Noninterest expenses incurred by centrally managed operations or business operating segments that directly support another business operating segment’s operations are charged to the applicable business operating segment based on its utilization of those services.

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

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

Consumer Banking

	As of and for the Three Months Ended March 31,			
(dollars in millions)	2018	2017	Change	Percent
Net interest income [1]	$733	$638	$95	15 %
Noninterest income	222	220	2	1
Total revenue	955	858	97	11
Noninterest expense	656	647	9	1
Profit before provision for credit losses	299	211	88	42
Provision for credit losses	72	64	8	13
Income before income tax expense	227	147	80	54
Income tax expense	57	52	5	10
Net income	$170	$95	$75	79
Loans (period-end) [2]	$59,795	$57,494	$2,301	4
Average Balances:				
Total assets	$61,348	$58,660	$2,688	5 %
Total loans and leases [2]	59,942	57,309	2,633	5
Deposits	75,416	74,133	1,283	2
Interest-earning assets	59,994	57,361	2,633	5
Key Performance Metrics:				
Net interest margin [3]	4.96 %	4.51 %	45 bps	
Efficiency ratio	68.72	75.41	(669) bps	
Loans-to-deposits ratio (average balances)[2]	79.48	77.31	217 bps	
Return on average total tangible assets [3]	1.12	0.66	46 bps	

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

[2] Includes loans held for sale.

[3] Ratios for the periods ended March 31, 2018 and 2017 are presented on an annualized basis.

Consumer Banking net income of $170 million increased $75 million, or 79%, from $95 million in first quarter 2017, as the benefit of a $97 million increase in total revenue more than offset a $9 million increase in noninterest expense. Net interest income of $733 million increased $95 million, or 15%, from first quarter 2017, driven by the impact of the FTP methodology enhancement as well as the benefit of a $2.6 billion increase in average loans led by residential mortgage, education and retail unsecured categories with higher loan yields that included the benefit of higher rates, partially offset by an increase in deposit costs.

Noninterest income increased $2 million, or 1%, from first quarter 2017, driven by an increase in mortgage banking fees and trust and investment services fees, partially offset by lower service charges and fees. Noninterest expense of $656 million increased $9 million, or 1%, from first quarter 2017, driven by higher salaries and benefits and outside services. These results were partially offset by lower credit collection costs. Provision for credit losses of $72 million increased $8 million, or 13%, largely driven by higher net charge-offs in auto and retail unsecured categories.

Commercial Banking

	As of and for the Three Months Ended March 31,			
(dollars in millions)	2018	2017	Change	Percent
Net interest income [1]	$357	$346	$11	3 %
Noninterest income	125	134	(9)	(7)
Total revenue	482	480	2	—
Noninterest expense	208	190	18	9
Profit before provision for credit losses	274	290	(16)	(6)
Provision for credit losses	(4)	19	(23)	(121)
Income before income tax expense	278	271	7	3
Income tax expense	63	91	(28)	(31)
Net income	$215	$180	$35	19
Loans and leases (period-end) [2]	$49,868	$48,013	$1,855	4
Average Balances:				
Total assets	$50,393	$49,243	$1,150	2 %
Total loans and leases [2]	49,285	48,154	1,131	2
Deposits	30,766	28,973	1,793	6
Interest-earning assets	49,479	48,283	1,196	2
Key Performance Metrics:				
Net interest margin [3]	2.93 %	2.91 %	2 bps	
Efficiency ratio	43.07	39.80	327 bps	
Loans-to-deposits ratio (average balances)[2]	160.19	166.20	(601) bps	
Return on average total tangible assets [3]	1.73	1.48	25 bps	

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

[2] Includes loans held for sale.

[3] Ratios for the periods ended March 31, 2018 and 2017 are presented on an annualized basis.

Commercial Banking net income of $215 million increased $35 million, or 19%, from $180 million in first quarter 2017, as the benefit of a $2 million increase in total revenue and a $23 million decrease in provision for credit losses was partially offset by an $18 million increase in noninterest expense. Net interest income of $357 million increased $11 million, or 3%, from $346 million in first quarter 2017, reflecting a $1.1 billion increase in average loans and leases and a $1.8 billion increase in average deposits.

Noninterest income of $125 million decreased $9 million, or 7%, from $134 million in first quarter 2017, reflecting lower capital markets and leasing fees. Noninterest expense of $208 million increased $18 million, or 9%, from $190 million in first quarter 2017, largely driven by higher salaries and employee benefits and outside services. Provision for credit losses decreased $23 million from first quarter 2017, driven by lower net charge-offs.

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Other

(in millions)	As of and for the Three Months Ended March 31, 2018	2017	Change	Percent
Net interest income [1]	$1	$21	($20)	(95%)
Noninterest income	24	25	(1)	(4)
Total revenue	25	46	(21)	(46)
Noninterest expense	19	17	2	12
Profit before provision for credit losses	6	29	(23)	(79)
Provision for credit losses	10	13	(3)	(23)
(Loss) income before income tax benefit	(4)	16	(20)	(125)
Income tax benefit	(7)	(29)	22	76
Net income	$3	$45	($42)	(93)
Loans and leases (period-end) [2]	$2,562	$3,273	($711)	(22)
Average Balances:				
Total assets	$39,782	$40,883	($1,101)	(3%)
Total loans and leases [2]	2,563	3,186	(623)	(20)
Deposits	7,241	6,848	393	6
Interest-earning assets	29,198	30,766	(1,568)	(5)

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

Other net income of $3 million decreased from $45 million in first quarter 2017, primarily driven by a $23 million benefit related to the settlement of state tax matters in first quarter 2017 and lower net interest income. Net interest income decreased $20 million, including an FTP methodology enhancement. Results also reflected lower net charge-offs and a reserve build of $8 million in first quarter 2018, compared to a reserve build of $9 million in first quarter 2017.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

ANALYSIS OF FINANCIAL CONDITION

Securities

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

(in millions)	March 31, 2018		December 31, 2017			
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Change in Fair Value	
Debt Securities Available for Sale, At Fair Value:[1]						
U.S. Treasury and other	$12	$12	$12	$12	$—	—%
State and political subdivisions	6	6	6	6	—	—
Mortgage-backed securities:						
Federal agencies and U.S. government sponsored entities	20,257	19,654	20,065	19,828	(174)	(1)
Other/non-agency	288	286	311	311	(25)	(8)
Total mortgage-backed securities	20,545	19,940	20,376	20,139	(199)	(1)
Total debt securities available for sale, at fair value	$20,563	$19,958	$20,394	$20,157	($199)	(1%)
Debt Securities Held to Maturity:[1]						
Mortgage-backed securities:						
Federal agencies and U.S. government sponsored entities	$3,747	$3,622	$3,853	$3,814	($192)	(5%)
Other/non-agency	808	817	832	854	(37)	(4)
Total mortgage-backed securities	4,555	4,439	4,685	4,668	(229)	(5)
Total debt securities held to maturity	$4,555	$4,439	$4,685	$4,668	($229)	(5)
Total debt securities available for sale and held to maturity	$25,118	$24,397	$25,079	$24,825	($428)	(2%)
Equity Securities:[1]						
Equity securities, at fair value	$172	$172	$169	$169	$3	2 %
Equity securities, at cost	748	748	722	722	26	4
Total equity securities	$920	$920	$891	$891	$29	3 %

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

As of March 31, 2018, the fair value of the AFS and HTM debt securities portfolio decreased $428 million to $24.4 billion, compared with $24.8 billion as of December 31, 2017. The decline in fair value of the AFS debt portfolio of $199 million was attributable to an increase in net unrealized losses on mortgage-backed securities of $368 million due to higher interest rates over the period. This was partially offset by a net reinvestment of proceeds from maturities and paydowns of $169 million. The decline in the fair value of the HTM debt portfolio of $229 million was attributable to net principal paydowns of $130 million, which were not reinvested in the HTM portfolio as well as a $99 million increase in net unrealized losses on mortgage-backed securities due to higher interest rates over the period.

As of March 31, 2018, the portfolio's average effective duration was 4.4 years compared with 3.9 years as of December 31, 2017, as higher long-term rates drove a decrease in securities prepayment speeds. We manage the securities portfolio duration and convexity risk through asset selection and securities structure, and maintain duration levels within our risk appetite in the context of the broader Interest Rate Risk in the Banking Book framework and limits.

The securities portfolio includes high-quality, highly-liquid investments reflecting our ongoing commitment to maintaining appropriate contingent liquidity levels and pledging capacity. U.S. government-guaranteed notes and government-sponsored entity-issued mortgage-backed securities represent 95% of the fair value of the debt securities portfolio holdings. The portfolio composition is also dominated by holdings backed by mortgages to facilitate our ability to pledge them to the FHLBs, which has become increasingly important due to the enhanced liquidity requirements of the liquidity coverage ratio and the liquidity stress test. For further discussion of the liquidity coverage ratios, see "Regulation and Supervision — Liquidity Standards" in Part I — Business, included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Loans and Leases

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

(in millions)	March 31, 2018	December 31, 2017	Change	Percent
Commercial	$38,277	$37,562	$715	2 %
Commercial real estate	11,775	11,308	467	4
Leases	3,092	3,161	(69)	(2)
Total commercial loans and leases	53,144	52,031	1,113	2
Residential mortgages	17,346	17,045	301	2
Home equity loans	1,298	1,392	(94)	(7)
Home equity lines of credit	13,190	13,483	(293)	(2)
Home equity loans serviced by others	504	542	(38)	(7)
Home equity lines of credit serviced by others	136	149	(13)	(9)
Automobile	12,794	13,204	(410)	(3)
Education	8,324	8,134	190	2
Credit cards	1,808	1,848	(40)	(2)
Other retail	2,881	2,789	92	3
Total retail loans	58,281	58,586	(305)	(1)
Total loans and leases [1] [2]	$111,425	$110,617	$808	1 %

[1] Excluded from the table above are loans held for sale totaling $800 million and $718 million as of March 31, 2018 and December 31, 2017, respectively.

[2] Mortgage loans serviced for others by our subsidiaries are not included above and amounted to $20.2 billion and $20.3 billion at March 31, 2018 and December 31, 2017, respectively.

Total loans and leases of $111.4 billion as of March 31, 2018 increased $808 million from $110.6 billion as of December 31, 2017, reflecting growth in commercial offset by a slight decrease in retail. Total commercial loans and leases of $53.1 billion increased $1.1 billion from $52.0 billion as of December 31, 2017, reflecting commercial loan growth of $715 million and commercial real estate loan growth of $467 million, partially offset by a decline in leases. Total retail loans of $58.3 billion decreased by $305 million from $58.6 billion as of December 31, 2017, driven by a $410 million decrease in automobile loans and a $293 million decrease in home equity lines of credit, partially offset by an increase of $301 million and $190 million in residential mortgages and education loans, respectively.

Allowance for Credit Losses and Nonperforming Assets

The allowance for credit losses, which consists of an ALLL and a reserve for unfunded lending commitments, is created through charges to the provision for credit losses in order to provide appropriate reserves to absorb future estimated credit losses in accordance with GAAP. For further information on our processes to determine our allowance for credit losses, see "—Critical Accounting Estimates — Allowance for Credit Losses" and Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017 and Note 4 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

The allowance for credit losses totaled $1.3 billion at March 31, 2018 and December 31, 2017. The ALLL represented 1.12% of total loans and leases and 144% of nonperforming loans and leases as of March 31, 2018 compared with 1.12% and 142%, respectively, as of December 31, 2017. As of March 31, 2018, there were no material changes in assumptions or estimation techniques compared with prior periods that impacted the determination of the current period's reserves. As of December 31, 2017, we enhanced the method for assessing various qualitative risks, factors and events that may not be measured in the modeled results. As a result, the qualitative allowance was presented within each loan class.

Overall credit quality remained strong, reflecting growth in higher-quality, lower-risk retail loans and broadly stable risk profile in commercial loans and leases portfolios. Nonperforming loans and leases of $868 million as of March 31, 2018, decreased $3 million from December 31, 2017 driven by a $12 million decrease in retail nonperforming loans, largely reflecting a $10 million decrease in auto and a $7 million decrease in real estate secured categories, partially offset by a $9 million increase in commercial nonperforming loans. Net charge-offs of $70 million decreased $17 million, or 20%, from $87 million in first quarter 2017. Annualized net charge-offs as a percentage of total average loans of 0.26% decreased seven basis points compared to first quarter 2017.

Commercial Loan Asset Quality

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

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

As of March 31, 2018, nonperforming commercial loans and leases of $274 million increased $9 million from $265 million as of December 31, 2017. Total commercial nonperforming loans were 0.5% of the commercial loan portfolio as of both March 31, 2018 and December 31, 2017. Net charge-offs in the commercial loan and lease portfolio reflected a net recovery of $3 million, compared to a net charge-off of $19 million in first quarter 2017. The commercial loan and lease portfolio's annualized net charge-off rate reflected a net recovery rate of two basis points, compared to annualized net charge-off rate of 15 basis points in first quarter 2017.

Total commercial criticized loans and leases portfolio of $3.5 billion, or 6.5% of the portfolio, compared to $2.8 billion, or 5.4%, at December 31, 2017. Commercial criticized balances were $2.8 billion, or 7.2% of commercial loans as of March 31, 2018, compared to $2.1 billion, or 5.7%, as of December 31, 2017. The increase in criticized assets is largely focused on the general restaurant portfolio and well-secured, asset-based loans, which reflects our prudent approach in moving loans to special mention where they receive heightened monitoring. We believe there are adequate reserves in place and there is not a high loss content in these loans. Commercial real estate criticized balances of $580 million, or 4.9% of the commercial real estate portfolio, compared to $602 million, or 5.3%, as of December 31, 2017. Commercial criticized loans to total criticized loans was 80% as of March 31, 2018 up slightly compared to 75% as of December 31, 2017. Commercial real estate accounted for 17% of total criticized loans as of March 31, 2018, compared to 21% as of December 31, 2017.

Retail Loan Asset Quality

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

The credit composition of our retail loan portfolio at both March 31, 2018 and December 31, 2017 reflected an average refreshed FICO score of 762. The real estate secured portfolio CLTV ratio is calculated as the mortgage and second lien loan balance divided by the most recently available value of the property and was 59% as of March 31, 2018 and 59% as of December 31, 2017. Retail net charge-offs of $73 million in first quarter 2018 reflected an increase of $5 million compared to first quarter 2017. The annualized net charge-off rate of 0.50% compared to 0.49% in first quarter 2017. Nonperforming retail loans as a percentage of total retail loans was 1.02% as of March 31, 2018, compared to 1.03% as of December 31, 2017.

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

The largest retail portfolio subject to payment reset, borrowers ending an interest-only draw period and entering repayment of principal and interest, is the HELOC portfolio. As of March 31, 2018 the HELOC portfolio totaled $13.3 billion, with $700 million scheduled to reach the end of the interest-only draw period and enter repayment of principal and interest for the remainder of 2018, and $2.7 billion scheduled to reach the end of the interest-only draw period and enter repayment of principal and interest between April 1, 2018 and December 31, 2021. The credit composition of the $2.7 billion scheduled to mature between April 1, 2018 and December 31, 2021 is similar to the overall HELOC portfolio, with 50% secured by a first lien, a weighted average FICO score of 761, and a CLTV of 55%, compared to the overall $13.3 billion HELOC portfolio, with 52% secured by a first lien, a weighted average FICO of 768, and a CLTV of 58%. Factors that affect our future expectations for continued relatively low charge-off risk in the face of rising interest rates for the portion of our HELOC portfolio subject to reset in future periods include a relatively high level of first lien collateral positions, improved loan-to-value ratios resulting from continued home price appreciation, relatively stable portfolio credit score profiles and continued robust loss mitigation efforts.

The performances of our historical vintages that have entered repayment remains stable. As of March 31, 2018, for the $1.7 billion of our HELOC portfolio that reached the end of the interest-only draw period and entered repayment of principal and interest during 2014 and 2015, 93% of the balances had been refinanced, paid off or were current on payments, 3% were past due and 4% had been charged off. As of March 31, 2018, for the $738 million of our HELOC portfolio that reached the end of the interest-only draw period and entered repayment of principal and interest in 2016, 95% of the balances had been refinanced, paid off or were current on payments, 3% were past due and 2% had been charged off. As of March 31, 2018, for the $730 million of our HELOC portfolio that reached the end of the interest-only draw period and entered repayment of principal and interest in 2017, 94% of the balances had been refinanced, paid off or were current on payments, 5% were past due and 1% had been charged off.

Troubled Debt Restructurings

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

As of March 31, 2018, $748 million of retail loans were classified as TDRs, compared with $761 million as of December 31, 2017. As of March 31, 2018, $194 million of retail TDRs were in nonaccrual status with 51% current with payments, an improvement compared to $211 million in nonaccrual status with 51% current on payments at December 31, 2017. TDRs generally return to accrual status once repayment capacity and appropriate payment history can be established. TDRs are individually evaluated for impairment and loans, once classified as TDRs, remain classified as TDRs until paid off, sold or refinanced at market terms.

For additional information regarding TDRs, see "—Critical Accounting Estimates — Allowance for Credit Losses," and Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017 and Note 4 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

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The following tables present an aging of our retail TDRs:

	March 31, 2018				
(in millions)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Recorded Investment:					
Residential mortgages	$96	$15	$3	$37	$151
Home equity loans	93	6	1	16	116
Home equity lines of credit	164	8	2	24	198
Home equity loans serviced by others	43	3	—	4	50
Home equity lines of credit serviced by others	8	—	—	1	9
Automobile	22	1	1	—	24
Education	158	5	3	3	169
Credit cards	22	1	1	—	24
Other retail	7	—	—	—	7
Total	$613	$39	$11	$85	$748

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

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

	March 31, 2018		
(in millions)	Accruing	Nonaccruing	Total
Recorded Investment:			
Residential mortgages	$102	$49	$151
Home equity loans	85	31	116
Home equity lines of credit	136	62	198
Home equity loans serviced by others	37	13	50
Home equity lines of credit serviced by others	4	5	9
Automobile	13	11	24
Education	146	23	169
Credit cards	24	—	24
Other retail	7	—	7

Total	$554	$194	$748

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

Non-Core Assets

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

(in millions)	March 31, 2018	December 31, 2017	Change	Percent
Commercial	$70	$56	$14	25 %
Commercial real estate	18	19	(1)	(5)
Leases	756	752	4	1
Total commercial loans and leases	844	827	17	2
Residential mortgages	129	136	(7)	(5)
Home equity loans	37	40	(3)	(8)
Home equity lines of credit	26	30	(4)	(13)
Home equity loans serviced by others	504	542	(38)	(7)
Home equity lines of credit serviced by others	136	149	(13)	(9)
Education	245	254	(9)	(4)
Total retail loans	1,077	1,151	(74)	(6)
Total non-core loans and leases	1,921	1,978	(57)	(3)
Other assets	111	112	(1)	(1)
Total non-core assets	$2,032	$2,090	($58)	(3 %)

Non-core assets are primarily liquidating loan and lease portfolios inconsistent with our strategic priorities, generally as a result of geographic location, industry, product type or risk level and are included in Other. Non-core assets of $2.0 billion as of March 31, 2018 decreased $58 million, or 3%, from December 31, 2017.

Retail non-core loan balances of $1.1 billion decreased $74 million, or 6%, compared to December 31, 2017. The largest component of our retail non-core portfolio is the home equity serviced by others portfolio ("SBO"), which totaled $640 million as of March 31, 2018, compared to $691 million as of December 31, 2017. The SBO portfolio consists of home equity loans and lines of credit purchased between 2003 and 2007 that were initially serviced by others. We now service about half of this portfolio internally.

The credit profile of the SBO portfolio reflected a weighted-average refreshed FICO score of 710 and CLTV of 80% as of March 31, 2018. The proportion of the portfolio in a second lien position was 97%, with 69% of the portfolio in out-of-footprint geographies. SBO net recoveries of $1 million in first quarter 2018 reflected a $3 million improvement from a $2 million net charge-off position in first quarter 2017, driven by continued portfolio seasoning, recoveries from aged charge-offs, and balance liquidation.

Commercial non-core loan and lease balances of $844 million increased $17 million, or 2%, from $827 million as of December 31, 2017. The largest component of our commercial non-core portfolio is an aircraft-related loan and lease portfolio tied to legacy Royal Bank of Scotland Group aircraft leasing borrowers, which totaled $756 million as of March 31, 2018 and $752 million as of December 31, 2017.

Derivatives

In the normal course of business, we enter into a variety of derivative transactions in order to meet the financing needs of our customers, and to reduce our exposure to fluctuations in interest rates and foreign currency exchange rates. These transactions include interest rate swap contracts, interest rate options, foreign exchange contracts, residential loan commitment rate locks, forward sale contracts and purchase options. The assets and liabilities for derivatives on the Consolidated Balance Sheets reflect the market value of these transactions. We designate certain derivatives as hedging instruments in a qualifying hedge accounting relationship (fair value or cash flow hedge). Our remaining derivatives consist of economic hedges that do not qualify for hedge accounting and derivatives held for customer accommodation trading, or other risk mitigating purposes. We monitor the results of each transaction to ensure that management's intent is satisfied. We do not use derivatives for speculative purposes. For additional information regarding our derivative instruments, see Note 8 "Derivatives" in our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

The table below presents our derivative assets and liabilities:

	March 31, 2018			December 31, 2017		
(in millions)	Notional Amount [1]	Derivative Assets	Derivative Liabilities	Notional Amount [1]	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate contracts	$11,550	$—	$—	$13,300	$—	$—
Derivatives not designated as hedging instruments:						
Interest rate contracts	88,089	204	377	80,180	538	379
Foreign exchange contracts	9,525	158	150	9,882	148	149
Other contracts	1,142	7	5	1,039	7	5
Total derivatives not designated as hedging instruments		369	532		693	533
Gross derivative fair values		369	532		693	533
Less: Gross amounts offset in the Consolidated Balance Sheets [2]		(83)	(83)		(72)	(72)
Less: Cash collateral applied [2]		(12)	(118)		(4)	(151)
Total net derivative fair values presented in the Consolidated Balance Sheets		$274	$331		$617	$310

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

[2] Amounts represent the impact of enforceable master netting agreements that allow us to settle positive and negative positions.

At March 31, 2018, the total net derivative asset value decreased $343 million and the total net derivative liability value increased by $21 million from December 31, 2017. The changes in fair value largely reflect the presentation of variation margin payments on centrally cleared derivative contracts as settlement of those derivatives rather than the posting of collateral. This change in presentation has been applied on a prospective basis coinciding with when certain Central Counterparty Clearing Houses amended their rules.

Derivatives designated as hedging instruments

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

(dollars in millions)	March 31, 2018 Notional Value	Avg Maturity (Yrs)	Float Index	Rate Range Fixed Leg	December 31, 2017 Notional Value	Avg Maturity (Yrs)	Float Index	Rate Range Fixed Leg
Receive-fixed:								
Cash flow - floating-rate commercial loans[1]	$7,600	2.7	1mL	(0.92% - 1.87%)	$7,600	3.0	1mL	(0.92% - 1.87%)
Fair value - senior debt issuance[2]	3,450	3.2	3mL	(1.17% - 2.80%)	5,200	2.4	3mL	(1.06% - 1.92%)
Total receive-fixed	11,050				12,800			
Pay-fixed:								
Cash flow - floating-rate wholesale funding[3]	500	0.8	1mL	1.32%	500	1.0	1mL	1.32 %
Total pay-fixed	500				500			
Total	$11,550				$13,300			

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

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

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

During first quarter 2018, we established a $500 million fair value hedge using a receive-fixed interest rate swap against $500 million of five-year fixed-rate senior debt to convert the debt to a floating obligation. CBNA also terminated $2.3 billion in receive-fixed swaps during first quarter 2018 related to previous three- and five-year senior debt issuances.

Derivatives not designated as hedging instruments

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

Deposits

The table below presents the major components of our deposits:

(in millions)	March 31, 2018	December 31, 2017	Change	Percent
Demand	$28,437	$29,279	($842)	(3 %)
Checking with interest	21,767	22,229	(462)	(2)

Regular savings	9,896	9,518	378	4	
Money market accounts	38,880	37,454	1,426	4	
Term deposits	16,750	16,609	141	1	
Total deposits	$115,730	$115,089	$641	1	%

Total deposits as of March 31, 2018 increased $641 million, or 1%, to $115.7 billion, from $115.1 billion as of December 31, 2017, as growth across money market products, regular savings, and term deposits was partially offset by decreases in demand deposits and checking with interest. The declines in demand deposits and checking with interest are seasonal in nature compared to typically higher levels at year-end.

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Borrowed Funds

Short-term borrowed funds

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

(in millions)	March 31, 2018	December 31, 2017	Change	Percent
Federal funds purchased	$—	$460	($460)	(100%)
Securities sold under agreements to repurchase	315	355	(40)	(11)
Other short-term borrowed funds [1]	1,494	1,856	(362)	(20)
Total short-term borrowed funds	$1,809	$2,671	($862)	(32%)

[1] March 31, 2018 includes $1.5 billion of debt issued under CBNA's Global Bank Note Program maturing within one year, with unamortized deferred issuance costs and/or discounts of ($2) million and other basis adjustments of ($14) million. December 31, 2017 includes $750 million of debt issued under CBNA's Global Bank Note Program maturing within one year, with unamortized deferred issuance costs and/or discounts of ($1) million and other basis adjustments of ($4) million.

Short-term borrowed funds of $1.8 billion as of March 31, 2018, decreased $862 million from December 31, 2017. The net decrease in other short-term borrowed funds of $362 million resulted from a reduction of $1.1 billion in short-term FHLB advances, partially offset by an increase of $740 million in senior bank debt, issued under CBNA's Global Note Program, now maturing within one year.

Our advances, lines of credit, and letters of credit from the FHLB are collateralized by pledged mortgages and pledged securities at least sufficient to satisfy the collateral maintenance level established by the FHLB. The utilized borrowing capacity for FHLB advances and letters of credit was $10.4 billion and $9.4 billion at March 31, 2018 and December 31, 2017, respectively. Our available FHLB borrowing capacity was $7.4 billion and $8.0 billion at March 31, 2018 and December 31, 2017, respectively. We can also borrow from the FRB discount window to meet short-term liquidity requirements. Collateral, including certain loans, is pledged to support this borrowing capacity. At March 31, 2018, our unused secured borrowing capacity was approximately $40.2 billion, which included unencumbered securities, FHLB borrowing capacity, and FRB discount window capacity.

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

(dollars in millions)	As of and for the Three Months Ended March 31, 2018	2017	As of and for the Year Ended December 31, 2017
Weighted-average interest rate at period-end:[1]			
Federal funds purchased and securities sold under agreements to repurchase	—%	0.43%	0.74%
Other short-term borrowed funds	2.41	1.08	1.72
Maximum amount outstanding at month-end during the period:			
Federal funds purchased and securities sold under agreements to repurchase[2]	$625	$1,174	$1,174
Other short-term borrowed funds	1,853	3,508	3,508
Average amount outstanding during the period:			
Federal funds purchased and securities sold under agreements to repurchase[2]	$645	$882	$776
Other short-term borrowed funds	1,481	2,963	2,321
Weighted-average interest rate during the period:[1]			
Federal funds purchased and securities sold under agreements to repurchase	0.66%	0.22%	0.36%
Other short-term borrowed funds	2.14	1.08	1.32

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

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Long-term borrowed funds

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

(in millions)	March 31, 2018	December 31, 2017
Parent Company:		
2.375% fixed-rate senior unsecured debt, due 2021	$349	$349
4.150% fixed-rate subordinated debt, due 2022	348	348
5.158% fixed-to-floating rate subordinated debt, due 2023, converting to floating at 3-month LIBOR + 3.56% and callable beginning June 2018	333	333
3.750% fixed-rate subordinated debt, due 2024	250	250
4.023% fixed-rate subordinated debt, due 2024	42	42
4.350% fixed-rate subordinated debt, due 2025	249	249
4.300% fixed-rate subordinated debt, due 2025	749	749
Banking Subsidiaries:		
2.450% senior unsecured notes, due 2019 (1)	738	743
2.500% senior unsecured notes, due 2019 (1) (2)	—	741
2.250% senior unsecured notes, due 2020 (1)	688	692
Floating-rate senior unsecured notes, due 2020 (1)	299	299
Floating-rate senior unsecured notes, due 2020 (1)	250	249
2.200% senior unsecured notes, due 2020 (1)	499	498
2.250% senior unsecured notes, due 2010 (1)	734	742
2.550% senior unsecured notes, due 2021 (1)	953	964
	249	249

Floating-rate senior unsecured notes, due 2022 [1]		
2.650% senior unsecured notes, due 2022 [1]	482	491
3.700% senior unsecured notes, due 2023 [1]	500	—
Floating-rate senior unsecured notes, due 2023 [1]	249	—
Federal Home Loan advances due through 2038	5,511	3,761
Other	14	16
Total long-term borrowed funds	$13,486	$11,765

[1] Issued under CBNA’s Global Bank Note Program.
[2] Reclassified to short-term borrowed funds.

Long-term borrowed funds of $13.5 billion as of March 31, 2018 increased $1.7 billion from December 31, 2017, reflecting an increase of $1.8 billion in long-term FHLB borrowings and the issuance of $750 million of senior unsecured notes under CBNA’s Global Note Program, partially offset by $740 million of senior unsecured notes maturing in less than one year that were reclassified to short-term borrowed funds.

The Parent Company’s long-term borrowed funds as of March 31, 2018 and December 31, 2017 included principal balances of $2.3 billion and unamortized deferred issuance costs and/or discounts of ($5) million. The banking subsidiaries’ long-term borrowed funds as of March 31, 2018 and December 31, 2017 include principal balances of $11.3 billion and $9.5 billion, respectively, with unamortized deferred issuance costs and/or discounts of ($18) million and ($19) million, respectively, and hedging basis adjustments of ($91) million and ($63) million, respectively. See Note 8 “Derivatives” for further information about our hedging of certain long-term borrowed funds.

CAPITAL AND REGULATORY MATTERS

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

On May 7, 2018, we filed an application with the OCC requesting approval to consolidate our banking subsidiaries via a merger of CBPA into CBNA. We intend to consolidate our banking subsidiaries to reduce enterprise risk and improve efficiency through legal entity, risk management and reporting simplification. Subject to regulatory approval, we anticipate the consolidation will occur in January 2019.

Dodd-Frank regulation

Under the Dodd-Frank requirements, we must submit our annual capital plan and the results of our annual company-run stress tests to the FRB by April 5th of each year and disclose certain results within 15 days after the FRB discloses the results of its supervisory-run tests. We publish estimated DFAST results under the supervisory severely adverse scenario on our regulatory filings and disclosures page on our Investor Relations website at http://investor.citizensbank.com. In June 2017, the FRB announced that it did not object to our 2017 Capital Plan or to our proposed capital actions for the period beginning July 1, 2017 and ending June 30, 2018. Our 2017 Capital Plan includes an increase in our quarterly common dividend from $0.18 to $0.22 per share starting in the first quarter of 2018, and a share repurchase plan through the second quarter of 2018. On April 5, 2018, we submitted our 2018 Capital Plan, Capital Policy and annual stress test results to the FRB as part of the 2018 CCAR process. The timing and exact amount of future dividends and share repurchases will depend on various factors, including capital position, financial performance and market conditions.

The Dodd-Frank Act also requires each of our bank subsidiaries to conduct stress tests on an annual basis and to disclose the stress test results. CBNA submitted its 2018 annual stress tests to the OCC on April 5, 2018 and will publish, on our Investor Relations website referenced above, a summary of those results along with the stress test results of the Parent Company within 15 calendar days after the FRB publicly discloses the results of the supervisory stress test. CBPA will submit the results of its 2018 annual stress tests to the FDIC by July 31, 2018 and publish its summary results as an update to the Parent Company/CBNA Dodd-Frank Act Company-Run Stress Test Disclosure between October 15 and October 31, 2018 on our Investor Relations website referenced above.

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

Capital Framework

Under the U.S. Basel III capital framework, we and our banking subsidiaries must meet specific minimum requirements for the following ratios: common equity tier 1 capital, tier 1 capital, total capital, and tier 1 leverage. The U.S. adoption of the Basel III Standardized approach by the Federal bank regulators became effective for CFG, CBNA and CBPA, on January 1, 2015 subject to a phase-in period for certain provisions. In November 2017, the federal banking regulators issued a final rule that extended the 2017 transitions for certain U.S. Basel III capital rules for non-advanced approaches banking organizations, such as us. Effective January 1, 2018, the final rule retains the 2017 U.S. Basel III transitional treatment of certain DTAs, mortgage servicing assets, investments in non-consolidated financial entities and minority interests. As a result, effective January 1, 2018, our mortgage servicing assets retain their 2017 risk weight treatment until the federal banking regulators revise the extended transitional treatment under the November 2017 final rule, which may occur in connection with the finalization of the related September 2017 proposal to simplify the capital treatment of certain DTAs, mortgage servicing assets, investments in non-consolidated financial entities and minority interests.

The U.S. Basel III rules also impose a capital conservation buffer ("CCB") on top of the following three minimum risk-based capital ratios: CET1 capital of 4.5%, tier 1 capital of 6.0%, and total capital of 8.0%. The implementation of the CCB began on January 1, 2016 at the 0.625% level and increases by 0.625% on each subsequent January 1, until the buffer reaches its fully phased-in level of 2.5% on January 1, 2019. As such, the CCB for 2018 increased to

1.875% on January 1, 2018. Banking institutions for which any risk-based capital ratio falls below its effective minimum (required minimum plus the applicable CCB) will be subject to constraints on capital distributions, including dividends, repurchases and certain executive compensation based on the amount of the shortfall.

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

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

(in millions, except ratio data)	Actual Amount	Actual Ratio	Required Minimum plus Required CCB for Non-Leverage Ratios[5][6]	FDIA Required Well-Capitalized Minimum for Purposes of Prompt Corrective Action[7]
March 31, 2018				
Common equity tier 1 capital[1]	$14,425	11.2 %	6.4 %	6.5 %
Tier 1 capital[2]	14,672	11.4	7.9	8.0
Total capital[3]	17,905	13.9	9.9	10.0
Tier 1 leverage[4]	14,672	10.0	4.0	5.0
Risk-weighted assets	129,066			
Quarterly adjusted average assets	146,441			
December 31, 2017				
Common equity tier 1 capital[1]	$14,309	11.2 %	5.8 %	6.5 %
Tier 1 capital[2]	14,556	11.4	7.3	8.0
Total capital[3]	17,781	13.9	9.3	10.0
Tier 1 leverage[4]	14,556	10.0	4.0	5.0
Risk-weighted assets	127,692			
Quarterly adjusted average assets	145,601			

(1) "Common equity tier 1 capital ratio" is CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
(2) "Tier 1 capital ratio" is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
(3) "Total capital ratio" is total capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
(4) "Tier 1 leverage ratio" is tier 1 capital divided by quarterly average total assets as defined under U.S. Basel III Standardized approach.
(5) Required "Minimum Capital ratio" for 2018 and 2017 are: Common equity tier 1 capital of 4.5%; Tier 1 capital of 6.0%; Total capital of 8.0%; and Tier 1 leverage of 4.0%.
(6) "Minimum Capital ratio" includes capital conservation buffer for Transitional Basel III of 1.875% for 2018 and 1.250% for 2017; N/A to Tier 1 leverage.
(7) Presented for informational purposes. Prompt corrective action provisions apply only to insured depository institutions - CBNA and CBPA.

At March 31, 2018, our CET1 capital, tier 1 capital and total capital ratios were 11.2%, 11.4% and 13.9%, respectively, consistent with December 31, 2017. The CET1 capital, tier 1 capital and total capital ratios remained stable as net income was offset by risk-weighted asset growth and our 2017 Capital Plan actions, which included first quarter 2018 common dividends of $108 million, preferred dividends of $7 million and the repurchase of $175 million of our outstanding common stock. At March 31, 2018, our CET1 capital, tier 1 capital and total capital ratios were 418 basis points, 287 basis points and 337 basis points, respectively, above their regulatory minimums plus the fully phased-in capital conservation buffer. Based on Basel III requirements, all ratios remained well above the U.S. Basel III minima.

Regulatory Capital Ratios and Capital Composition

CET1 capital under U.S. Basel III Standardized rules totaled $14.4 billion at March 31, 2018, and increased $116 million from $14.3 billion at December 31, 2017, as net income in first quarter 2018 was partially offset by the impact of common share repurchases and dividend payments. Tier 1 capital at March 31, 2018 totaled $14.7 billion, reflecting a $116 million increase from $14.6 billion at December 31, 2017, driven by the changes in CET1 capital noted above. At March 31, 2018, we had $247 million of 5.500% Fixed-to-Floating Non-Cumulative Perpetual Preferred Stock outstanding which qualified as additional tier 1 capital. Total capital of $17.9 billion at March 31, 2018, increased $124 million from December 31, 2017, as net income in first quarter 2018 was partially offset by the impact of common share repurchases and dividend payments over the period.

Risk-weighted assets (“RWA”) totaled $129.1 billion at March 31, 2018, based on U.S. Basel III Standardized rules, up $1.4 billion from December 31, 2017. This increase was driven by $707 million of market risk RWA, as we met the reporting threshold prescribed by Market Risk Capital Guidelines for first quarter 2018, as well as growth in commercial, education, FNMA mortgage backed securities and residential mortgages. These increases were partially offset by run-off in the auto and home equity portfolios.

As of March 31, 2018, the tier 1 leverage ratio was stable with December 31, 2017 at 10.0%.

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

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

(in millions)	March 31, 2018	December 31, 2017
Total common stockholders' equity	$19,812	$20,023
Exclusions[1]:		
Net unrealized losses recorded in accumulated other comprehensive income, net of tax:		
Debt and equity securities	514	236
Derivatives	193	143
Unamortized net periodic benefit costs	438	441
Deductions:		
Goodwill	(6,887)	(6,887)
Deferred tax liability associated with goodwill	357	355
Other intangible assets	(2)	(2)
Total common equity tier 1	14,425	14,309
Qualifying preferred stock	247	247
Total tier 1 capital	14,672	14,556
Qualifying subordinated debt[2]	1,901	1,901
Allowance for loan and lease losses	1,246	1,236
Allowance for credit losses for off-balance sheet exposure	86	88
Total capital	$17,905	$17,781

[1] As a U.S. Basel III Standardized approach institution, we selected the one-time election to opt-out of the requirements to include all the components of AOCI.
[2] As of March 31, 2018 and December 31, 2017, the amount of non-qualifying subordinated debt excluded from regulatory capital was $70 million.

Capital Adequacy Process

Our assessment of capital adequacy begins with our risk appetite and risk management framework. This framework provides for the identification, measurement and management of material risks. Capital requirements are determined for actual and forecasted risk portfolios using applicable regulatory capital methodologies. The assessment also considers the possible impacts of approved and proposed regulatory changes to future periods. Key analytical frameworks including stress testing, which enable the assessment of capital adequacy versus unexpected loss, supplement our base case forecast. 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 feed development of a single capital plan covering us and our banking subsidiaries that is submitted to the FRB and to the bank regulators. We prepare this plan in full compliance with the FRB's Capital Plan Rule and we participate annually in the FRB's horizontal capital review ("HCR") process. In addition to the stress test requirements under CCAR, we also perform semi-annual company-run stress tests required by the Dodd-Frank Act.

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

Capital Transactions

The following capital actions were completed during first quarter 2018:

- Declared and paid quarterly common stock dividends of $0.22 per share for first quarter 2018, aggregating to $108 million;
- Declared a semi-annual dividend of $27.50 per share on the 5.500% fixed-to-floating rate non-cumulative perpetual Series A Preferred Stock, aggregating to $7 million; and

- Repurchased $175 million of our outstanding common stock.

Banking Subsidiaries' Capital

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

	March 31, 2018			December 31, 2017		
(dollars in millions, except ratio data)	Amount	Ratio		Amount	Ratio	
Citizens Bank, National Association						
Common equity tier 1 capital[1]	$11,789	11.2	%	$11,917	11.4	%
Tier 1 capital [2]	11,789	11.2		11,917	11.4	
Total capital[3]	14,016	13.3		14,127	13.5	
Tier 1 leverage[4]	11,789	10.1		11,917	10.3	
Risk-weighted assets	105,702			104,767		
Quarterly adjusted average assets	116,200			115,291		
Citizens Bank of Pennsylvania						
Common equity tier 1 capital[1]	$2,969	12.7	%	$3,045	12.9	%
Tier 1 capital [2]	2,969	12.7		3,045	12.9	
Total capital[3]	3,199	13.7		3,284	13.9	
Tier 1 leverage[4]	2,969	8.6		3,045	8.7	
Risk-weighted assets	23,419			23,659		
Quarterly adjusted average assets	34,359			34,821		

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

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

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

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

CBNA CET1 capital totaled $11.8 billion at March 31, 2018, down $128 million from $11.9 billion at December 31, 2017, reflecting the impact of dividend payments, partially offset by net income. At March 31, 2018, CBNA held minimal additional tier 1 capital. Total capital was $14.0 billion at March 31, 2018, a decrease of $111 million from $14.1 billion at December 31, 2017, primarily driven by the decrease in CET1 capital noted above.

CBNA RWA of $105.7 billion at March 31, 2018 increased $935 million from December 31, 2017, driven by growth in commercial, education and residential mortgages. These increases were partially offset by run-off in the auto and home equity portfolios.

As of March 31, 2018, the CBNA tier 1 leverage ratio decreased 19 basis points to 10.1% from 10.3% as of December 31, 2017, driven by a $909 million increase in adjusted quarterly average total assets that drove an eight basis point decline in the ratio, as well as an 11 basis point decrease from lower CET1 capital described above.

CBPA CET1 capital totaled $3.0 billion at March 31, 2018, a decrease of $76 million from December 31, 2017, as dividend payments exceeded net income. At March 31, 2018, there was no additional tier 1 capital. Total capital was $3.2 billion at March 31, 2018, a decrease of $85 million from December 31, 2017, primarily driven by the decrease in CET1 capital noted above.

CBPA RWA of $23.4 billion at March 31, 2018 decreased $240 million from December 31, 2017, driven by decreases in the education, auto and home equity portfolios. These decreases were partially offset by increases in commercial and FNMA mortgage backed securities.

As of March 31, 2018, the CBPA tier 1 leverage ratio decreased 10 basis points to 8.6% from 8.7% as of December 31, 2017, driven by a 22 basis point decrease from lower CET1 capital described above, partially offset by a $462 million decrease in adjusted quarterly average total assets that drove a 12 basis point increase in the ratio.

LIQUIDITY

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

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

Parent Company Liquidity

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

During first quarter 2018 and 2017, the Parent Company declared and paid dividends on common stock of $108 million and $72 million, respectively, and declared semi-annual preferred dividends of $7 million for both periods. During first quarter 2018 and 2017, the Parent Company repurchased $175 million and $130 million of its outstanding common stock, respectively.

Our Parent Company's cash and cash equivalents represent a source of liquidity that can be used to meet various needs and totaled $833 million as of March 31, 2018 and $443 million December 31, 2017, respectively. The Parent Company's double-leverage ratio (the combined equity investment in Parent Company subsidiaries divided by Parent Company equity) is a measure of reliance on equity cash flows from subsidiaries to fund Parent Company obligations. At March 31, 2018, the Parent Company's double-leverage ratio was 101%.

Banking Subsidiaries' Liquidity

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

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

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

Liquidity Risk

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

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

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

Factors Affecting Liquidity

Given the composition of their assets and borrowing sources, contingent liquidity risk at both CBNA and CBPA would be materially affected by such events as deterioration of financing markets for high-quality securities

(e.g., mortgage-backed securities and other instruments issued by the GNMA, FNMA and the FHLMC), by any inability of the FHLBs to provide collateralized advances, and/or by a refusal of the FRB to act as lender of last resort in systemic stress.

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

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

	March 31, 2018		
	Moody's	Standard and Poor's	Fitch
Citizens Financial Group, Inc.:			
Long-term issuer	NR	BBB+	BBB+
Short-term issuer	NR	A-2	F2
Subordinated debt	NR	BBB	BBB
Preferred Stock	NR	BB+	BB-
Citizens Bank, National Association:			
Long-term issuer	Baa1	A-	BBB+
Short-term issuer	NR	A-2	F2
Long-term deposits	A1	NR	A-
Short-term deposits	P-1	NR	F2
Citizens Bank of Pennsylvania:			
Long-term issuer	Baa1	A-	BBB+
Short-term issuer	NR	A-2	F2
Long-term deposits	A1	NR	A-
Short-term deposits	P-1	NR	F2

NR = Not rated

Changes in our public credit ratings could affect both the cost and availability of our wholesale funding. As a result and in order to maintain a conservative funding profile, our banking subsidiaries continue to minimize reliance on unsecured wholesale funding. At March 31, 2018, our wholesale funding consisted primarily of secured borrowings from the FHLBs collateralized by high-quality residential mortgages, and term debt issued by the Parent Company and CBNA.

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

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

compliant with the LCR as of March 31, 2018.
The U.S. federal bank regulatory agencies have issued a notice of proposed rulemaking to implement the NSFR, along with a modified version with similar parameters as the LCR, that would designate us as a modified NSFR financial institution. The NSFR is one of the two Basel III-based liquidity measures, distinctly separate from the LCR, and is designed to promote medium- and long-term stable funding of the assets and off-balance sheet activities of

banks and bank holding companies over a one-year time horizon. Generally consistent with the Basel Committee's framework, under the proposed rule banking organizations would be required to hold an amount of available stable funding ("ASF") over a one-year time horizon that equals or exceeds the institution's amount of required stable funding ("RSF"), with the ASF representing the numerator and the RSF representing the denominator of the NSFR. The banking organizations subject to the modified NSFR would multiply the RSF amount by 70%, such that the RSF amount required for these companies would be required to maintain ASF of at least 70% of its RSF. Generally, these modified NSFR companies are defined as institutions with total assets of greater than $50 billion but less than $250 billion, and less than $10 billion of on-balance sheet foreign exposure. The proposed rule includes detailed descriptions of the items that would comprise ASF and RSF and standardized factors that would apply to ASF and RSF items, and would require any institution whose applicable modified NSFR falls under 100% to notify the appropriate federal regulator and develop a remediation plan.

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

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

Liquidity Risk Management and Governance

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

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

We seek to accomplish this mission by funding loans with stable deposits; by prudently controlling dependence on wholesale funding, particularly short-term unsecured funding; and by maintaining ample available liquidity, including a contingent liquidity buffer of unencumbered high-quality loans and securities. As of March 31, 2018:

- Core deposits continued to be our primary source of funding and our consolidated period end loan-to-deposit ratio was 97.0%;
- Our cash position (which is defined as cash balance held at the FRB) totaled $2.7 billion;
- Contingent liquidity was $30.0 billion, consisting of unencumbered high-quality liquid assets of $19.9 billion, unused FHLB capacity of $7.4 billion, and our cash position (defined above) of $2.7 billion. Asset liquidity (a component of contingent liquidity) was $22.6 billion consisting of our cash position of $2.7 billion and unencumbered high-quality and liquid securities of $19.9 billion; and
- Available discount window capacity, defined as available total borrowing capacity from the FRB based on identified collateral, is secured by non-mortgage commercial and retail loans and totaled $12.9 billion. Use of this borrowing capacity would be considered only during exigent circumstances.

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

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

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

Cash flows from operating activities contributed $704 million in the first quarter 2018, driven by net income of $388 million and proceeds from sales of mortgage loans held for sale of $655 million, partially offset by originations of mortgage loans held for sale of $614 million. Net cash used by investing activities was $1.1 billion, primarily reflecting a net increase in loans and leases of $1.0 billion. Cash provided by financing activities was $1.2 billion, driven by proceeds from issuance of long-term borrowed funds of $6.3 billion and a net increase in deposits of $641 million, partially offset by a net decrease in other short-term borrowed funds of $1.6 billion, and repayments of long-term FHLB advances of $3.3 billion. The $6.3 billion proceeds from issuances of long-term borrowed funds included $750 million from issuances of medium-term debt and $5.5 billion in FHLB advances. These activities resulted in a cumulative increase in cash and cash equivalents of $827 million, which when added to the cash and cash equivalents balance of $3.0 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of $3.9 billion as of March 31, 2018.

Cash flows from operating activities contributed $853 million in first quarter 2017, driven by net income of $320 million, a net increase in mortgage loans held for sale activity of $160 million and a decrease of $282 million in other assets. Net cash used by investing activities was $1.1 billion, primarily reflecting a net increase in debt securities available for sale portfolio purchases of $1.7 billion and an increase in loans and leases of $769 million, partially offset by proceeds from maturities, paydowns and sales of debt securities available for sale of $1.2 billion. Cash provided by financing activities was $579 million, driven by proceeds from issuance of long-term borrowed funds of $3.0 billion and a net increase in deposits of $2.3 billion, partially offset by a net decrease in other short-term borrowed funds of $450 million, and repayments of long-term FHLB advances of $4.0 billion. The $3.0 billion proceeds included $1.0 billion from issuances of medium-term debt and $2.0 billion in FHLB advances. These activities represented a cumulative increase in cash and cash equivalents of $289 million, which, when added to the cash and cash equivalents balance of $3.7 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of $4.0 billion as of March 31, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

The following table presents our outstanding off-balance sheet arrangements. See Note 11 "Commitments and Contingencies" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

(in millions)	March 31, 2018	December 31, 2017	Change	Percent
Undrawn commitments to extend credit	$63,107	$62,959	$148	— %
Financial standby letters of credit	1,966	2,036	(70)	(3)
Performance letters of credit	109	47	62	132
Commercial letters of credit	43	53	(10)	(19)
Marketing rights	41	41	—	—
Risk participation agreements	18	16	2	13
Residential mortgage loans sold with recourse	6	7	(1)	(14)
Total	$65,290	$65,159	$131	— %

CRITICAL ACCOUNTING ESTIMATES

Our unaudited interim Consolidated Financial Statements, which are included in this report, are prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to establish accounting policies and make estimates that affect amounts reported in our audited Consolidated Financial Statements. An accounting estimate requires assumptions and judgments about uncertain matters that could have a material effect on our unaudited interim Consolidated Financial Statements. Estimates are made using facts and circumstances known at a point in time. Changes in those facts and circumstances could produce results substantially different from those estimates. Our most significant accounting policies and estimates are related to ALLL, fair value, and income taxes. For additional information regarding these accounting policies and estimates and their related application, see "—Critical Accounting Estimates" to the audited Consolidated Financial Statements in our

Annual Report on Form 10-K for the year ended December 31, 2017. No material changes were made to these significant accounting policies or estimates during the three months ended March 31, 2018.

RISK GOVERNANCE

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

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

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

MARKET RISK

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

Non-Trading Risk

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

Interest Rate Risk

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

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

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

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

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

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

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

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

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

The table below reports net interest income exposures against a variety of interest rate scenarios. Our policies involve measuring exposures as a percentage change in net interest income over the next year due to either instantaneous or gradual parallel changes in rates relative to the market implied forward yield curve. With rates rising from historically low levels due to Federal Open Market Committee rate increases beginning in December 2016, exposure to falling rates has increased. While rates have begun to rise off of the very low levels, an instantaneous decline of 2.0% is still not possible. As the following table illustrates, our balance sheet is asset-sensitive: net interest income would benefit from an increase in interest rates. Exposure to a decline in interest rates is within limit. While an instantaneous and severe shift in interest rates was used in this analysis, we believe that any actual shift in interest rates would likely be more gradual and would therefore have a more modest impact as demonstrated in the following table.

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

	Estimated % Change in Net Interest Income over 12 Months	
Basis points	March 31, 2018	December 31, 2017
Instantaneous Change in Interest Rates		
+200	9.9 %	9.6 %
+100	5.1	4.9
-100	(5.2)	(5.9)
Gradual Change in Interest Rates		

+200	5.0	5.1
+100	2.6	2.7
-100	(1.6)	(1.8)

Asset sensitivity against a 200 basis point gradual increase in rates was 5.0% at March 31, 2018, a modest decline from 5.1% at December 31, 2017. The core asset sensitivity is the result of a faster repricing of the loan book relative to the deposit and equity funding. As the Fed has slowly begun to normalize rates given improved economic growth and data, this upward trend in rates has benefited our net interest income and net interest margin as a result of the asset sensitivity. The risk position can be affected by changes in interest rates which impact the repricing sensitivity or beta of the deposit base as well as the cash flows on prepayable assets. The risk position is managed within our risk limits through occasional adjustments to securities investments, interest rate swaps and mix of funding.

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

Capital Markets

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

Mortgage Servicing Rights

We have market risk associated with the value of the mortgage servicing right assets, which are impacted by the level of interest rates. As of March 31, 2018 and December 31, 2017, our mortgage servicing rights had a book value of $201 million and $198 million, respectively, and were carried at the lower of cost or fair value. As of March 31, 2018 and December 31, 2017, the fair value of our mortgage servicing rights was $246 million and $218 million, respectively, which exceeded the carrying value at those dates. Depending on the interest rate environment, hedges may be used to stabilize the market value of the mortgage servicing right asset.

Trading Risk

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

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

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

Market Risk Governance

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

Market Risk Measurement

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

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

VaR Overview

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

Market Risk Regulatory Capital

The U.S. banking regulators' "Market Risk Rule" covers the calculation of market risk capital and substantially modified the determination of market risk-weighted assets and implemented a more risk sensitive methodology for the risk inherent in certain trading positions categorized as "covered positions." For the purposes of the Market Risk Rule, all of our client facing trades and associated hedges need to maintain a low risk profile to qualify, and do qualify, as "covered positions." The internal management VaR measure is calculated based on the same population of trades that is utilized for regulatory VaR. The following table presents the results of our modeled and non-modeled measures for regulatory capital calculations:

(in millions)	For the Three Months Ended March 31, 2018				For the Three Months Ended March 31, 2017			
Market Risk Category	Period End	Average	High	Low	Period End	Average	High	Low
Interest Rate	$2	$2	$2	$1	$1	$—	$1	$—
Foreign Exchange Currency Rate	—	—	1	—	—	—	2	—
Credit Spread	2	2	3	2	3	2	3	1
General VaR	3	3	4	2	3	2	3	—
Specific Risk VaR	—	—	—	—	—	—	—	—
Total VaR	$3	$3	$4	$2	$3	$2	$3	$—
Stressed General VaR	$13	$12	$15	$9	$10	$7	$11	$2
Stressed Specific Risk VaR	—	—	—	—	—	—	—	—
Total Stressed VaR	$13	$12	$15	$9	$10	$7	$11	$2
Market Risk Regulatory Capital	$44				$24			

Specific Risk Not Modeled Add-on	13	10
de Minimis Exposure Add-on	—	3
Total Market Risk Regulatory Capital	$57	$37
Market Risk-Weighted Assets	$707	$468

Stressed VaR

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

Sensitivity Analysis

Sensitivity analysis is the measure of exposure to a single risk factor, such as a one basis point change in rates or credit spread. We conduct and monitor sensitivity on interest rates, basis spreads, foreign exchange exposures, option prices, and credit spreads. Whereas VaR is based on previous moves in market risk factors over recent periods, it may not be an accurate predictor of future market moves. Sensitivity analysis complements VaR, as it provides an indication of risk relative to each factor irrespective of historical market moves, and is an effective tool in evaluating the appropriateness of hedging strategies and concentrations.

Stress Testing

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

VaR Model Review and Validation

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

VaR Backtesting

Backtesting is one form of validation of the VaR model and is run daily. The Market Risk Rule requires a comparison of our internal VaR measure to the actual net trading revenue (excluding fees, commissions, reserves, intra-day trading and net interest income) for each day over the preceding year (the most recent 250 business days). Any observed loss in excess of the VaR number is taken as an exception. The level of exceptions determines the multiplication factor used to derive the VaR and SVaR-based capital requirement for regulatory reporting purposes, when applicable. We perform sub-portfolio backtesting as required under the Market Risk Rule, and as approved by our banking regulators, for interest rate, credit spread, and foreign exchange positions. The following graph shows our daily net trading revenue and total internal, modeled VaR for the twelve months ended March 31, 2018.

Daily VaR Backtesting

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

KEY PERFORMANCE METRICS, NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS
For more information on the computation of key performance metrics and non-GAAP financial measures, see "—Introduction — Key Performance Metrics Used by Management and Non-GAAP Financial Measures," included in this report. The following table presents computations of key performance metrics used throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations":

		As of and for the Three Months Ended March 31,			
(in millions, except share, per-share and ratio data)	Ref.	2018		2017	
Total revenue (GAAP)	A	$1,462		$1,384	
Noninterest expense (GAAP)	B	883		854	
Net income (GAAP)	C	388		320	
Net income available to common stockholders (GAAP)	D	381		313	
Return on average common equity:					
Average common equity (GAAP)	E	$19,732		$19,460	
Return on average common equity	D/E	7.83	%	6.52	%
Return on average tangible common equity:					
Average common equity (GAAP)	E	$19,732		$19,460	
Less: Average goodwill (GAAP)		6,887		6,876	
Less: Average other intangibles (GAAP)		2		—	
Add: Average deferred tax liabilities related to goodwill (GAAP)		355		531	
Average tangible common equity	F	$13,198		$13,115	
Return on average tangible common equity	D/F	11.71	%	9.68	%
Return on average total assets:					
Average total assets (GAAP)	G	$151,523		$148,786	
Return on average total assets	C/G	1.04	%	0.87	%
Return on average total tangible assets:					
Average total assets (GAAP)	G	$151,523		$148,786	
Less: Average goodwill (GAAP)		6,887		6,876	
Less: Average other intangibles (GAAP)		2		—	
Add: Average deferred tax liabilities related to goodwill (GAAP)		355		531	
Average tangible assets	H	$144,989		$142,441	
Return on average total tangible assets	C/H	1.08	%	0.91	%
Efficiency ratio:					
Efficiency ratio	B/A	60.43	%	61.68	%
Operating leverage:					
Increase in total revenue		5.57	%	12.16	%
Increase in noninterest expense		3.43		5.30	
Operating leverage		2.14	%	6.86	%
Effective income tax rate:					
Income before income tax expense	I	$501		$434	
Income tax expense	J	113		114	
Effective income tax rate	J/I	22.52	%	26.36	%
Net income per average common share - basic and diluted:					
Average common shares outstanding - basic (GAAP)	K	487,500,618		509,451,450	
Average common shares outstanding - diluted (GAAP)	L	489,266,826		511,348,200	
Net income per average common share - basic (GAAP)	D/K	$0.78		$0.61	
Net income per average common share - diluted (GAAP)	D/L	0.78		0.61	

Dividend payout ratio:			
Cash dividends declared and paid per common share	M	$0.22	$0.14
Dividend payout ratio	M/(D/K)	28.15 %	22.79 %

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		As of and for the Three Months Ended March 31,							
		2018				2017			
(in millions, except ratio data)	Ref.	Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated
Net income available to common stockholders:									
Net income (GAAP)	N	$170	$215	$3	$388	$95	$180	$45	$320
Less: Preferred stock dividends		—	—	7	7	—	—	7	7
Net income available to common stockholders	O	$170	$215	($4)	$381	$95	$180	$38	$313
Efficiency ratio:									
Total revenue (GAAP)	P	$955	$482	$25	$1,462	$858	$480	$46	$1,384
Noninterest expense (GAAP)	Q	656	208	19	883	647	190	17	854
Efficiency ratio	Q/P	68.72%	43.07%	NM	60.43%	75.41%	39.80%	NM	61.68%
Return on average total tangible assets:									
Average total assets (GAAP)		$61,348	$50,393	$39,782	$151,523	$58,660	$49,243	$40,883	$148,786
Less: Average goodwill (GAAP)		—	—	6,887	6,887	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	2	2	—	—	—	—
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	355	355	—	—	531	531
Average total tangible assets	R	$61,348	$50,393	$33,248	$144,989	$58,660	$49,243	$34,538	$142,441
Return on average total tangible assets	N/R	1.12%	1.73%	NM	1.08%	0.66%	1.48%	NM	0.91%

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

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

		As of and for the Three Months Ended March 31,	
(in millions, except share, per-share and ratio data)	Ref.	2018	2017
Income before income tax expense, Underlying:			
Income before tax expense (GAAP)	I	$501	$434
Less: Notable items		—	—
Income before income tax expense, Underlying (non-GAAP)	S	$501	$434
Income tax expense and effective income tax rate, Underlying:			
Income tax expense (GAAP)	J	$113	$114
Less: Notable items			
Settlement of certain tax matters		—	(23)
Income tax expense, Underlying (non-GAAP)	T	$113	$137
Effective income tax rate (GAAP)	J/I	22.52 %	26.36 %
Effective income tax rate, Underlying (non-GAAP)	T/S	22.52	31.56
Net income, Underlying:			
Net income (GAAP)	C	$388	$320
Add: Notable items, net of tax expense			
Settlement of certain tax matters		—	(23)
Net income, Underlying (non-GAAP)	U	$388	$297
Net income available to common stockholders, Underlying:			
Net income available to common stockholders (GAAP)	D	$381	$313
Add: Notable items, net of tax expense			
Settlement of certain tax matters		—	(23)
Net income available to common stockholders, Underlying (non-GAAP)	V	$381	$290
Return on average common equity and return on average common equity, Underlying:			
Average common equity (GAAP)	E	$19,732	$19,460
Return on average common equity	D/E	7.83 %	6.52 %
Return on average common equity, Underlying (non-GAAP)	V/E	7.83	6.05
Return on average tangible common equity and return on average common equity, Underlying:			
Average common equity (GAAP)	E	$19,732	$19,460
Less: Average goodwill (GAAP)		6,887	6,876
Less: Average other intangibles (GAAP)		2	—
Add: Average deferred tax liabilities related to goodwill (GAAP)		355	