CITIZENS FINANCIAL GROUP INC/RI
Form 10-Q
November 06, 2015

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
September 30, 2015

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

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

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

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

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

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.
[X] 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).
[X] Yes [ ] No

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

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

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

There were 527,636,669 shares of Registrant’s common stock ($0.01 par value) outstanding on November 2, 2015.

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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
BHC	Bank Holding Company
bps	Basis Points
C&I	Commercial and Industrial
Capital Plan Rule	Federal Reserve's Regulation Y Capital Plan Rule
CBNA	Citizens Bank, N.A.
CBPA	Citizens Bank of Pennsylvania
CCAR	Comprehensive Capital Analysis and Review
CCO	Chief Credit Officer
CET1	Common Equity Tier 1
CEO	Chief Executive Officer
Citizens or CFG or the Company	Citizens Financial Group, Inc. and its Subsidiaries
CLTV	Combined Loan-to-Value
CMO	Collateralized Mortgage Obligation
CRE	Commercial Real Estate
CRO	Chief Risk Officer
DFAST	Dodd-Frank Act Stress Test
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EPS	Earnings Per Share
ESPP	Employee Stock Purchase Program
ERISA	Employee Retirement Income Security Act of 1974
Fannie Mae (FNMA)	Federal National Mortgage Association
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation (credit rating)
FRB	Federal Reserve Bank
FRBG	Federal Reserve Board of Governors
Freddie Mac (FHLMC)	Federal Home Loan Mortgage Corporation
FTP	Funds Transfer Pricing
GAAP	Accounting Principles Generally Accepted in the United States of America
GDP	Gross Domestic Product
Ginnie Mae (GNMA)	Government National Mortgage Association
HELOC	Home Equity Line of Credit
HTM	Held To Maturity
IPO	Initial Public Offering
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
MD&A	Management’s Discussion and Analysis of Financial Condition and Results of Operations
MSR	Mortgage Servicing Right
NSFR	Net Stable Funding Ratio
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income
OIS	Overnight Index Swap
OTC	Over the Counter
PD	Probability of Default
peers or peer banks or peer regional banks	BB&T, Comerica, Fifth Third, KeyCorp, M&T, PNC, Regions, SunTrust and U.S. Bancorp
RBS	The Royal Bank of Scotland Group plc or any of its subsidiaries
ROTCE	Return on Average Tangible Common Equity
RPA	Risk Participation Agreement
RWA	Risk-weighted Assets
SBO	Serviced by Others loan portfolio
SVaR	Stressed Value-at-Risk
TDR	Troubled Debt Restructuring
VaR	Value-at-Risk

CITIZENS FINANCIAL GROUP, INC.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data)	September 30, 2015	December 31, 2014
ASSETS:		
Cash and due from banks	$1,067	$1,171
Interest-bearing cash and due from banks	689	2,105
Interest-bearing deposits in banks	363	370
Securities available for sale, at fair value	18,197	18,656
Securities held to maturity (fair value of $5,386 and $5,193, respectively)	5,285	5,148
Other investment securities, at fair value	50	33
Other investment securities, at cost	822	867
Loans held for sale, at fair value	369	256
Other loans held for sale	51	25
Loans and leases	97,431	93,410
Less: Allowance for loan and lease losses	1,201	1,195
Net loans and leases	96,230	92,215
Derivative assets (related party balances of $105 and $1, respectively)	838	629
Premises and equipment, net	560	595
Bank-owned life insurance	1,553	1,527
Goodwill	6,876	6,876
Other assets (related party balances of $2 and $7, respectively)	2,497	2,384
TOTAL ASSETS	$135,447	$132,857
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$27,373	$26,086
Interest-bearing (related party balances of $5 and $5, respectively)	74,493	69,621
Total deposits	101,866	95,707
Federal funds purchased and securities sold under agreements to repurchase	1,293	4,276
Other short-term borrowed funds	5,861	6,253
Derivative liabilities (related party balances of $275 and $387, respectively)	641	612
Deferred taxes, net	637	493
Long-term borrowed funds (related party balances of $2,000 and $2,000, respectively)	4,153	4,642
Other liabilities (related party balances of $30 and $30, respectively)	1,396	1,606
TOTAL LIABILITIES	$115,847	$113,589
Contingencies (refer to Note 13)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $25.00 par value, authorized 100,000,000 shares:		
Series A, non-cumulative perpetual, $25.00 par value (liquidation preference $1,000), 250,000 shares authorized and issued net of issuance costs and related premium at September 30, 2015, and no shares outstanding at December 31, 2014	$247	$—
Common stock:		
$0.01 par value, 1,000,000,000 shares authorized, 562,941,263 shares issued and 527,636,510 shares outstanding at September 30, 2015 and 1,000,000,000 shares authorized, 560,262,638 shares issued and 545,884,519 shares outstanding at December 31, 2014	6	6

Additional paid-in capital	18,718	18,676
Retained earnings	1,745	1,294
Treasury Stock, at cost, 35,304,753 and 14,378,119 shares at September 30, 2015 and December 31, 2014, respectively	(857)	(336)
Accumulated other comprehensive loss	(259)	(372)
TOTAL STOCKHOLDERS’ EQUITY	$19,600	$19,268
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$135,447	$132,857

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

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CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in millions, except share and per-share data)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
INTEREST INCOME:				
Interest and fees on loans and leases (related party balances of $17, $18, $53 and $54, respectively)	$812	$754	$2,381	$2,235
Interest and fees on loans held for sale, at fair value	3	2	8	4
Interest and fees on other loans held for sale	3	—	7	22
Investment securities	154	155	468	458
Interest-bearing deposits in banks	2	2	4	4
Total interest income	974	913	2,868	2,723
INTEREST EXPENSE:				
Deposits	65	41	177	108
Deposits held for sale	—	—	—	4
Federal funds purchased and securities sold under agreements to repurchase (related party balances of $1, $3, $6 and $16, respectively)	4	9	13	25
Other short-term borrowed funds (related party balances of $13, $16, $38 and $60, respectively)	17	21	51	70
Long-term borrowed funds (related party balances of $19, $17, $59 and $42, respectively)	32	22	95	55
Total interest expense	118	93	336	262
Net interest income	856	820	2,532	2,461
Provision for credit losses	76	77	211	247
Net interest income after provision for credit losses	780	743	2,321	2,214
NONINTEREST INCOME:				
Service charges and fees (related party balances of $0, $1, $2 and $4, respectively)	145	144	419	430
Card fees	60	58	172	175
Trust and investment services fees	41	39	118	120
Mortgage banking fees	18	21	81	55
Capital markets fees (related party balances of $2, $4, $8 and $9, respectively)	21	22	73	66
Foreign exchange and trade finance fees (related party balances of $5, $59, $21 and $52, respectively)	22	26	67	70
Bank-owned life insurance income	14	13	40	36
Securities gains, net	2	2	19	27
Net impairment losses recognized in earnings	(2)	(1)	(5)	(7)
Other income (related party balances of ($75), $5, ($125) and ($130), respectively)	32	17	76	367
Total noninterest income	353	341	1,060	1,339
NONINTEREST EXPENSE:				
Salaries and employee benefits	404	409	1,234	1,281
Outside services (related party balances of $3, $3, $8 and $19, respectively)	89	106	267	314
Occupancy (related party balances of $0, $0, $1 and $0, respectively)	75	77	245	245
Equipment expense	62	58	190	187

Amortization of software	35	38	108	102
Other operating expense	133	122	405	439
Total noninterest expense	798	810	2,449	2,568
Income before income tax expense	335	274	932	985
Income tax expense	115	85	313	317
NET INCOME	$220	$189	$619	$668
Net income available to common stockholders	$213	$189	$612	$668
Weighted-average common shares outstanding:				
Basic	530,985,255	559,998,324	538,279,222	559,998,324
Diluted	533,398,158	560,243,747	540,926,361	560,081,031
Per common share information:				
Basic earnings	$0.40	$0.34	$1.14	$1.19
Diluted earnings	0.40	0.34	1.13	1.19
Dividends declared and paid	0.10	0.68	0.30	1.34

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2015	2014	2015	2014
Net income	$220	$189	$619	$668
Other comprehensive income (loss):				
Net unrealized derivative instrument gains arising during the periods, net of income taxes of $30, $10, $66 and $80, respectively	48	17	108	137
Reclassification adjustment for net derivative (losses) gains included in net income, net of income taxes of ($3), $2, ($5) and $9, respectively	(4)	3	(8)	16
Net unrealized securities available for sale gains (losses) arising during the periods, net of income taxes of $37, ($36), $25 and $73, respectively	61	(61)	41	127
Other-than-temporary impairment not recognized in earnings on securities, net of income taxes of ($4), $0, ($15) and ($12), respectively	(8)	(1)	(26)	(22)
Reclassification of net securities gains to net income, net of income taxes of $0, $0, ($5) and ($7), respectively	—	(1)	(9)	(13)
Defined benefit pension plans:				
Actuarial loss, net of income taxes of $0, ($35), $0 and ($35), respectively	—	(59)	—	(59)
Net prior service credit, net of income taxes of $0, $3, $0 and $3, respectively	—	4	—	4
Amortization of actuarial loss, net of income taxes $0, $1, $3 and $2, respectively	3	2	7	4
Divestitures to RBS effective September 1, 2014, net of income taxes of $0, $13, $0 and $13, respectively	—	19	—	19
Total other comprehensive income (loss), net of income taxes	100	(77)	113	213
Total comprehensive income	$320	$112	$732	$881

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Total
(in millions)	Shares	Amount	Shares	Amount					
Balance at January 1, 2014	—	$—	560	$6	$18,603	$1,235	$—	($648)	$19,196
Dividends to RBS	—	—	—	—	—	(85)	—	—	(85)
Dividends to RBS — exchange transactions	—	—	—	—	—	(666)	—	—	(666)
Share-based compensation plans	—	—	—	—	57	—	—	—	57
Total comprehensive income:									
Net income	—	—	—	—	—	668	—	—	668
Other comprehensive income	—	—	—	—	—	—	—	213	213
Total comprehensive income	—	—	—	—	—	668	—	213	881
Balance at September 30, 2014	—	$—	560	$6	$18,660	$1,152	$—	($435)	$19,383
Balance at January 1, 2015	—	$—	546	$6	$18,676	$1,294	($336)	($372)	$19,268
Dividends to common stockholders	—	—	—	—	—	(90)	—	—	(90)
Dividends to RBS	—	—	—	—	—	(71)	—	—	(71)
Dividend to preferred stockholders	—	—	—	—	—	(7)	—	—	(7)
Issuance of preferred stock	—	247	—	—	—	—	—	—	247
Treasury stock purchased	—	—	(20)	—	—	—	(500)	—	(500)
Share-based compensation plans	—	—	2	—	35	—	(21)	—	14
Employee stock purchase plan shares issued	—	—	—	—	7	—	—	—	7
Total comprehensive income:									
Net income	—	—	—	—	—	619	—	—	619
Other comprehensive income	—	—	—	—	—	—	—	113	113
Total comprehensive income	—	—	—	—	—	619	—	113	732
Balance at September 30, 2015	—	$247	528	$6	$18,718	$1,745	($857)	($259)	$19,600

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
(in millions)	2015	2014
OPERATING ACTIVITIES		
Net income	$619	$668
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	211	247
Originations of mortgage loans held for sale	(1,836)	(1,131)
Proceeds from sales of mortgage loans held for sale	1,780	1,089
Purchases of commercial loans held for sale	(887)	—
Proceeds from sales of commercial loans held for sale	826	—
Amortization of terminated cash flow hedges (related party balances of $13 and $13, respectively)	13	36
Depreciation, amortization and accretion	350	313
Mortgage servicing rights valuation recovery	(6)	(8)
Securities impairment	5	7
Deferred income taxes	76	31
Share-based compensation	22	29
Loss on disposal/impairment of premises and equipment	—	18
Loss on sale of other branch assets held for sale	—	9
Gain on sales of:		
Debt securities	(19)	(27)
Marketable equity securities available for sale	(3)	—
Premises and equipment	(9)	—
Other loans held for sale	—	(11)
Deposits held for sale	—	(286)
Increase in other assets (related party balances of ($99) and $53, respectively)	(306)	(2,033)
(Decrease) increase in other liabilities (related party balances of ($112) and ($151), respectively)	(5)	2,256
Net cash provided by operating activities	831	1,207
INVESTING ACTIVITIES		
Investment securities:		
Purchases of securities available for sale	(5,418)	(5,642)
Proceeds from maturities and paydowns of securities available for sale	2,660	2,238
Proceeds from sales of securities available for sale	3,180	1,265
Purchases of securities held to maturity	(811)	(1,174)
Proceeds from maturities and paydowns of securities held to maturity	610	216
Proceeds from sales of securities held to maturity	73	—
Purchases of other investment securities, at fair value	(109)	(97)
Proceeds from sales of other investment securities, at fair value	92	90
Purchases of other investment securities, at cost	(33)	(72)
Proceeds from sales of other investment securities, at cost	78	114
Net decrease (increase) in interest-bearing deposits in banks	7	(59)
Net increase in loans and leases	(4,315)	(4,120)
Net increase in bank-owned life insurance	(26)	(31)
Premises and equipment:		

Purchases	(54)	(48)
Proceeds from sales	12	29
Capitalization of software	(142)	(116)
Net cash used in investing activities	(4,196)	(7,407)
FINANCING ACTIVITIES		
Net increase in deposits	6,159	1,569
Net (decrease) increase in federal funds purchased and securities sold under agreements to repurchase	(2,983)	393
Net (decrease) increase in other short-term borrowed funds	(1,152)	4,462
Proceeds from issuance of long-term borrowed funds (related party balances of $0 and $666, respectively)	250	666
Repayments of long-term borrowed funds	(8)	(7)
Treasury stock purchased	(500)	—
Net proceeds from issuance of preferred stock	247	—
Dividends declared and paid to common stockholders	(90)	—
Dividends declared and paid to RBS	(71)	(751)
Dividends declared and paid to preferred stockholders	(7)	—
Net cash provided by financing activities	1,845	6,332
(Decrease) increase in cash and cash equivalents	(1,520)	132
Cash and cash equivalents at beginning of period	3,276	2,757
Cash and cash equivalents at end of period	$1,756	$2,889

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

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION
Basis of Presentation

The unaudited interim Consolidated Financial Statements, including the Notes thereto of Citizens Financial Group, Inc., have been prepared in accordance with GAAP interim reporting requirements, and therefore do not include all information and Notes included in the audited Consolidated Financial Statements in conformity with GAAP. These unaudited interim Consolidated Financial Statements and Notes thereto should be read in conjunction with the Company's audited Consolidated Financial Statements and accompanying Notes included in the Company's Form 10-K for the year ended December 31, 2014. The Company's principal business activity is banking, conducted through its subsidiaries, Citizens Bank, N.A. and Citizens Bank of Pennsylvania.

The unaudited interim Consolidated Financial Statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results for interim periods are not necessarily indicative of results for a full year.

On August 22, 2014, the Company's Board of Directors declared a 165,582-for-1 stock split. Except for the amount of authorized shares and par value, all references to share and per share amounts in the unaudited interim Consolidated Financial Statements and accompanying Notes have been restated to reflect the stock split.

Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications had no effect on net income, total comprehensive income, total assets or total stockholders' equity as previously reported.

Recent Accounting Pronouncements

In August 2015, the FASB issued ASU No. 2015-15 "Interest - Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-Of-Credit Arrangements." The ASU incorporates guidance from the SEC on deferral of debt issuance costs associated with line-of-credit arrangements, consistent with ASU 2015-03, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This new guidance will not have a material impact on the Company's unaudited interim Consolidated Financial Statements.

In August 2015, the FASB issued ASU No. 2015-14 "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date" which defers the effective date of the new revenue standard by one year. As a result of this deferral, the new revenue standard is effective for the Company beginning on January 1, 2018. The Company is currently assessing the impact of this guidance on the Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-05 "Intangibles - Goodwill and Other - Internal Use Software" which will assist entities in evaluating the accounting for fees paid by a customer in a cloud computing arrangement. The ASU, which allows for early adoption, is effective for the Company beginning on January 1, 2016. Adoption of this guidance is not expected to have a material impact on the Company's unaudited interim Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-03 "Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs". This standard requires debt issuance costs to be presented in the consolidated balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The ASU, which allows for early adoption, is effective for the Company beginning on January 1, 2016. Adoption of this guidance is not expected to have a material impact on the Company's unaudited interim Consolidated Financial Statements.

In February 2015, the FASB issued ASU No. 2015-02 "Consolidation (Topic 810): Amendments to the Consolidation Analysis". This standard focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities such as limited partnerships, limited liability corporations, and securitization structures (e.g., collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). This new standard simplifies consolidation accounting by reducing the number of consolidation models. The ASU will be effective for the Company beginning on January 1, 2016. Early adoption is permitted, including adoption in an interim period. The potential impact the adoption of this guidance will have to the Company's unaudited interim Consolidated Financial Statements is under review.

In January 2015, the FASB issued ASU No. 2015-01 "Income Statement: Extraordinary and Unusual Items." This ASU eliminates from GAAP the concept of extraordinary items. Accounting Standards Codification Subtopic 225-20 required that an entity separately classify, present, and disclose extraordinary events and transactions that were unusual in nature and infrequent in occurrence. This ASU, which allows for early adoption, is effective for the Company beginning on January 1, 2016. The adoption of this guidance is not expected to have a material impact on the Company's unaudited interim Consolidated Financial Statements.

NOTE 2 - SECURITIES

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

	September 30, 2015				December 31, 2014			
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale								
U.S. Treasury	$15	$—	$—	$15	$15	$—	$—	$15
State and political subdivisions	9	—	—	9	10	—	—	10
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	17,340	292	(25)	17,607	17,683	301	(50)	17,934
Other/non-agency	587	3	(41)	549	703	4	(35)	672
Total mortgage-backed securities	17,927	295	(66)	18,156	18,386	305	(85)	18,606
Total debt securities available for sale	17,951	295	(66)	18,180	18,411	305	(85)	18,631
Marketable equity securities	5	—	—	5	10	3	—	13
Other equity securities	12	—	—	12	12	—	—	12
Total equity securities available for sale	17	—	—	17	22	3	—	25
Total securities available for sale	$17,968	$295	($66)	$18,197	$18,433	$308	($85)	$18,656
Securities Held to Maturity								
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	$4,092	$67	($4)	$4,155	$3,728	$22	($31)	$3,719
Other/non-agency	1,193	38	—	1,231	1,420	54	—	1,474
Total securities held to maturity	$5,285	$105	($4)	$5,386	$5,148	$76	($31)	$5,193
Other Investment Securities, at Fair Value								
Money market mutual fund	$45	$—	$—	$45	$28	$—	$—	$28
Venture capital and other investments	5	—	—	5	5	—	—	5
Total other investment securities, at fair value	$50	$—	$—	$50	$33	$—	$—	$33
Other Investment Securities, at Cost								
Federal Reserve Bank stock	$468	$—	$—	$468	$477	$—	$—	$477
Federal Home Loan Bank stock	354	—	—	354	390	—	—	390
Total other investment securities, at cost	$822	$—	$—	$822	$867	$—	$—	$867

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has reviewed its securities portfolio for other-than-temporary impairments. The following table presents the net impairment losses recognized in earnings:

(in millions)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Other-than-temporary impairment:				
Total other-than-temporary impairment losses	($14)	($3)	($46)	($42)
Portions of loss recognized in other comprehensive income (before taxes)	12	2	41	35
Net impairment losses recognized in earnings	($2)	($1)	($5)	($7)

The following tables summarize those securities whose fair values are below carrying values, segregated by those that have been in a continuous unrealized loss position for less than twelve months and those that have been in a continuous unrealized loss position for twelve months or longer:

	September 30, 2015								
	Less than 12 Months			12 Months or Longer			Total		
(dollars in millions)	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses
State and political subdivisions	1	$9	$—	—	$—	$—	1	$9	$—
Mortgage-backed securities:									
Federal agencies and U.S. government sponsored entities	35	2,985	(12)	37	960	(17)	72	3,945	(29)
Other/non-agency	6	52	(1)	19	366	(40)	25	418	(41)
Total mortgage-backed securities	41	3,037	(13)	56	1,326	(57)	97	4,363	(70)
Total	42	$3,046	($13)	56	$1,326	($57)	98	$4,372	($70)

	December 31, 2014								
	Less than 12 Months			12 Months or Longer			Total		
(dollars in millions)	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses
State and political subdivisions	—	$—	$—	1	$10	$—	1	$10	$—
Mortgage-backed securities:									
Federal agencies and U.S. government	75	3,282	(24)	52	1,766	(57)	127	5,048	(81)

sponsored entities									
Other/non-agency	6	80	(2)	17	397	(33)	23	477	(35)
Total mortgage-backed securities	81	3,362	(26)	69	2,163	(90)	150	5,525	(116)
Total	81	$3,362	($26)	70	$2,173	($90)	151	$5,535	($116)

For each debt security identified with an unrealized loss, the Company reviews the expected cash flows to determine if the impairment in value is temporary or other-than-temporary. If the Company has determined that the present value of the debt security's expected cash flows is less than its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. The amount of impairment loss that is recognized in current period earnings is dependent on the Company's intent to sell (or not sell) the debt security.

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If the Company intends to sell the impaired debt security, the impairment loss recognized in current period earnings equals the difference between the debt security's fair value and its amortized cost. If the Company does not intend to sell the impaired debt security, and it is not likely that the Company will be required to sell the impaired security, the credit-related impairment loss is recognized in current period earnings and equals the difference between the amortized cost of the debt security and the present value of the expected cash flows that have currently been projected.

In addition to these cash flow projections, several other characteristics of each debt security are reviewed when determining whether a credit loss exists and the period over which the debt security is expected to recover. These characteristics include: (1) the type of investment, (2) various market factors affecting the fair value of the security (e.g., interest rates, spread levels, liquidity in the sector, etc.), (3) the length and severity of impairment, and (4) the public credit rating of the instrument.

The Company estimates the portion of loss attributable to credit using a cash flow model. The inputs to this model include prepayment, default and loss severity assumptions that are based on industry research and observed data. The loss projections generated by the model are reviewed on a quarterly basis by a cross-functional governance committee. This governance committee determines whether security impairments are other-than-temporary based on this review.

The following table presents the cumulative credit related losses recognized in earnings on debt securities held by the Company:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2015	2014	2015	2014
Cumulative balance at beginning of period	$62	$60	$62	$56
Credit impairments recognized in earnings on securities not previously impaired	—	—	—	—
Credit impairments recognized in earnings on securities that have been previously impaired	2	1	5	7
Reductions due to increases in cash flow expectations on impaired securities	(1)	(1)	(4)	(3)
Cumulative balance at end of period	$63	$60	$63	$60

Cumulative credit losses recognized in earnings for impaired AFS debt securities held as of September 30, 2015 and 2014 were $63 million and $60 million, respectively. There were no credit losses recognized in earnings for the Company's HTM portfolio as of September 30, 2015 and 2014. For the three months ended September 30, 2015 and 2014, the Company recognized credit related other-than-temporary impairment losses in earnings of $2 million and $1 million, respectively, related to non-agency MBS in the AFS portfolio. For the nine months ended September 30, 2015 and 2014, the Company recognized credit related other-than-temporary impairment losses in earnings of $5 million and $7 million, respectively. There were no credit impaired debt securities sold during the three or nine months ended September 30, 2015 and 2014, respectively. Reductions in credit losses due to increases in cash flow expectations were $1 million for the three months ended September 30, 2015 and 2014, and $4 million and $3 million for the nine months ended September 30, 2015 and 2014, respectively, and were presented in interest income from investment securities on the Consolidated Statements of Operations. The Company does not currently have the intent to sell these debt securities, and it is not likely that the Company will be required to sell these debt securities prior to the recovery of their amortized cost bases.

The Company has determined that credit losses are not expected to be incurred on the remaining agency and non-agency MBS identified with unrealized losses as of the current reporting date. The unrealized losses on these debt securities reflect the reduced liquidity in the MBS market and the increased risk spreads due to the uncertainty of the U.S. macroeconomic environment. Therefore, the Company has determined that these debt securities are not other-than-temporarily impaired because the Company does not currently have the intent to sell these debt securities, and it is not likely that the Company will be required to sell these debt securities prior to the recovery of their amortized cost bases. Any subsequent increases in the valuation of impaired debt securities do not impact their recorded cost bases. As of September 30, 2015 and 2014, $41 million and $35 million, respectively, of pre-tax non-credit related losses were deferred in OCI.

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The amortized cost and fair value of debt securities at September 30, 2015 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without incurring penalties.

	Distribution of Maturities				
(in millions)	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	Total
Amortized Cost:					
Debt securities available for sale					
U.S. Treasury	$15	$—	$—	$—	$15
State and political subdivisions	—	—	—	9	9
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	47	1,972	15,321	17,340
Other/non-agency	—	70	9	508	587
Total debt securities available for sale	15	117	1,981	15,838	17,951
Debt securities held to maturity					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	4,092	4,092
Other/non-agency	—	—	—	1,193	1,193
Total debt securities held to maturity	—	—	—	5,285	5,285
Total amortized cost of debt securities	$15	$117	$1,981	$21,123	$23,236
Fair Value:					
Debt securities available for sale					
U.S. Treasury	$15	$—	$—	$—	$15
State and political subdivisions	—	—	—	9	9
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	50	2,006	15,551	17,607
Other/non-agency	—	71	9	469	549
Total debt securities available for sale	15	121	2,015	16,029	18,180
Debt securities held to maturity					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	4,155	4,155
Other/non-agency	—	—	—	1,231	1,231
Total debt securities held to maturity	—	—	—	5,386	5,386
Total fair value of debt securities	$15	$121	$2,015	$21,415	$23,566

The following table reports the amounts recognized in interest income from investment securities on the Consolidated Statements of Operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2015	2014	2015	2014
Taxable	$154	$155	$468	$458
Non-taxable	—	—	—	—
Total interest income from investment securities	$154	$155	$468	$458

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Realized gains and losses on AFS securities are shown below:

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
(in millions)	2015	2014	2015	2014
Gains on sale of debt securities	$7	$7	$29	$32
Losses on sale of debt securities	(7)	(5)	(12)	(5)
Debt securities gains, net	$—	$2	$17	$27
Equity securities gains	$—	$—	$3	$—

In advance of the Volcker Rule effective date, during the three months ended September 30, 2015, the Company sold a $73 million mortgage-backed security that was classified as HTM that would have been prohibited under the Volcker Rule beginning in July 2017. Upon sale the Company recognized a $2 million gain.

The amortized cost and fair value of securities pledged are shown below:

	September 30, 2015		December 31, 2014	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pledged against repurchase agreements	$1,275	$1,294	$3,650	$3,701
Pledged against FHLB borrowed funds	1,203	1,241	1,355	1,407
Pledged against derivatives, to qualify for fiduciary powers, and to secure public and other deposits as required by law	3,442	3,517	3,453	3,520

There were no loan securitizations for the three or nine months ended September 30, 2015 and 2014.

The Company regularly enters into security repurchase agreements with unrelated counterparties. Repurchase agreements are financial transactions that involve the transfer of a security from one party to another and a subsequent transfer of the same (or "substantially the same") security back to the original party. The Company's repurchase agreements are typically short-term transactions, but they may be extended to longer terms to maturity. Such transactions are accounted for as secured borrowed funds on the Company's financial statements. When permitted by GAAP, the Company offsets the short-term receivables associated with its reverse repurchase agreements with the short-term payables associated with its repurchase agreements.

The effects of this offsetting on the Consolidated Balance Sheets are presented in the following table:

	September 30, 2015			December 31, 2014		
(in millions)	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts of Assets (Liabilities)	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts of Assets (Liabilities)
Securities purchased under agreements to resell	$1,300	($1,300)	$—	$—	$—	$—
Securities sold under agreements to repurchase	(1,800)	1,300	(500)	(2,600)	—	(2,600)

Note: The Company also offsets certain derivative assets and derivative liabilities on the Consolidated Balance Sheets. For further information see Note 12 "Derivatives."

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Securities under the agreements to repurchase or resell are accounted for as secured borrowings. The following table presents the Company's related activity, by collateral type and remaining contractual maturity, at September 30, 2015:

	Remaining Contractual Maturity of the Agreements				
(in millions)	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
Securities purchased under agreements to resell					
Mortgage-backed securities - Agency	$—	$500	$300	$500	$1,300
Total securities purchased under agreements to resell	$—	$500	$300	$500	$1,300
Securities sold under agreements to repurchase					
Mortgage-backed securities - Agency	$—	($500)	($800)	($500)	($1,800)
Total securities sold under agreement to repurchase	$—	($500)	($800)	($500)	($1,800)

For these securities sold under the agreements to repurchase, the Company would be obligated to provide additional collateral in the event of a significant decline in fair value of the collateral pledged. The Company manages the risk by monitoring the liquidity and credit quality of the collateral, as well as the maturity profile of the transactions.

NOTE 3 - LOANS AND LEASES

A summary of the loans and leases portfolio follows:

(in millions)	September 30, 2015	December 31, 2014
Commercial	$32,726	$31,431
Commercial real estate	8,678	7,809
Leases	3,865	3,986
Total commercial	45,269	43,226
Residential mortgages	12,792	11,832
Home equity loans	2,842	3,424
Home equity lines of credit	14,707	15,423
Home equity loans serviced by others (1)	1,054	1,228
Home equity lines of credit serviced by others (1)	441	550
Automobile	13,876	12,706
Student	3,846	2,256
Credit cards	1,628	1,693
Other retail	976	1,072
Total retail	52,162	50,184
Total loans and leases (2) (3)	$97,431	$93,410

(1) The Company’s SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.
(2) Excluded from the table above are loans held for sale totaling $420 million as of September 30, 2015 and $281 million as of December 31, 2014.
(3) Mortgage loans serviced for others by the Company’s subsidiaries are not included above, and amounted to $17.7 billion and $17.9 billion at September 30, 2015 and December 31, 2014, respectively.

Loans held for sale at fair value totaled $369 million and $256 million at September 30, 2015 and December 31, 2014, respectively, and consisted of residential mortgages originated for sale of $269 million and the commercial trading portfolio of $100 million as of September 30, 2015. As of December 31, 2014, residential mortgages originated for sale were $213 million, and commercial trading portfolio totaled $43 million. Other loans held for sale totaled $51 million and $25 million as of September 30, 2015 and December 31, 2014, respectively and consisted of commercial loan syndications.

Loans pledged as collateral for FHLB borrowed funds totaled $22.1 billion and $22.0 billion at September 30, 2015 and December 31, 2014, respectively. This collateral consists primarily of residential mortgages and home equity loans. Loans pledged as collateral to support the contingent ability to borrow at the FRB discount window, if necessary, totaled $12.7 billion and $11.8 billion at September 30, 2015 and December 31, 2014, respectively.

During the nine months ended September 30, 2015, the Company purchased a portfolio of automobile loans with an outstanding principal balance of $1.1 billion, a portfolio of residential mortgages with an outstanding principal balance of $887 million, and a portfolio of student loans with an outstanding principal balance of $615 million. During the nine months ended September 30, 2014, the Company purchased a portfolio of residential loans with an outstanding principal balance of $1.5 billion, a portfolio of auto loans with an outstanding principal balance of $1.3 billion and a portfolio of student loans with an outstanding principal balance of $59 million.

During the nine months ended September 30, 2015, the Company sold a portfolio of residential mortgages with an outstanding principal balance of $273 million and $41 million of credit card balances associated with a terminated agent credit card servicing agreement. During the nine months ended September 30, 2014, in addition to the $1.1 billion loans sold as part of the Company's sale of its Chicago-area retail branches, the Company sold portfolios of residential mortgage loans with outstanding principal balances of $126 million and student loans of $357 million as well as commercial loans with an outstanding principal balance of $165 million.

NOTE 4 - ALLOWANCE FOR CREDIT LOSSES, NONPERFORMING ASSETS, AND CONCENTRATIONS OF CREDIT RISK

The allowance for credit losses consists of the ALLL and the reserve for unfunded commitments. It is increased through a provision for credit losses that is charged to earnings, based on the Company’s quarterly evaluation of the loan portfolio, and is reduced by net charge-offs and the ALLL associated with sold loans. See Note 1 “Significant Accounting Policies” to the Company’s audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2014, for a detailed discussion of ALLL reserve methodologies and estimation techniques.

On a quarterly basis, the Company reviews and refines its estimate of the allowance for credit losses, taking into consideration changes in portfolio size and composition, historical loss experience, internal risk ratings, current economic conditions, industry performance trends and other pertinent information.

There were no material changes in assumptions or estimation techniques compared with prior periods that impacted the determination of the current period’s ALLL and the reserve for unfunded lending commitments.

The following is a summary of changes in the allowance for credit losses:

	Nine Months Ended September 30, 2015		
(in millions)	Commercial	Retail	Total
Allowance for loan and lease losses as of January 1, 2015	$544	$651	$1,195
Charge-offs	(32)	(324)	(356)
Recoveries	42	107	149
Net (charge-offs) recoveries	10	(217)	(207)
Provision charged to income	21	192	213
Allowance for loan and lease losses as of September 30, 2015	575	626	1,201
Reserve for unfunded lending commitments as of January 1, 2015	61	—	61
Credit for unfunded lending commitments	(2)	—	(2)
Reserve for unfunded lending commitments as of September 30, 2015	59	—	59
Total allowance for credit losses as of September 30, 2015	$634	$626	$1,260

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	Nine Months Ended September 30, 2014		
(in millions)	Commercial	Retail	Total
Allowance for loan and lease losses as of January 1, 2014	$498	$723	$1,221
Charge-offs	(30)	(344)	(374)
Recoveries	47	84	131
Net (charge-offs) recoveries	17	(260)	(243)
Provision charged to income	27	196	223
Allowance for loan and lease losses as of September 30, 2014	542	659	1,201
Reserve for unfunded lending commitments as of January 1, 2014	39	—	39
Provision for unfunded lending commitments	24	—	24
Reserve for unfunded lending commitments as of September 30, 2014	63	—	63
Total allowance for credit losses as of September 30, 2014	$605	$659	$1,264

The recorded investment in loans and leases based on the Company's evaluation methodology is as follows:

	September 30, 2015			December 31, 2014		
(in millions)	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	$194	$1,170	$1,364	$205	$1,208	$1,413
Formula-based evaluation	45,075	50,992	96,067	43,021	48,976	91,997
Total	$45,269	$52,162	$97,431	$43,226	$50,184	$93,410

The following is a summary of the allowance for credit losses by evaluation method:

	September 30, 2015			December 31, 2014		
(in millions)	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	$23	$104	$127	$20	$109	$129
Formula-based evaluation	611	522	1,133	585	542	1,127
Allowance for credit losses	$634	$626	$1,260	$605	$651	$1,256

For commercial loans and leases, the Company utilizes regulatory classification ratings to monitor credit quality. Loans with a "pass" rating are those that the Company believes will be fully repaid in accordance with the contractual loan terms. Commercial loans and leases that are "criticized" are those that have some weakness that indicates an increased probability of future loss. For retail loans, the Company primarily uses the loan's payment and delinquency status to monitor credit quality. The further a loan is past due, the greater the likelihood of future credit loss. These credit quality indicators for both commercial and retail loans are continually updated and monitored.

The recorded investment in classes of commercial loans and leases based on regulatory classification ratings is as follows:

	September 30, 2015				
		Criticized			
(in millions)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$31,005	$924	$712	$85	$32,726
Commercial real estate	8,326	207	103	42	8,678
Leases	3,796	22	47	—	3,865
Total	$43,127	$1,153	$862	$127	$45,269

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	December 31, 2014				
		Criticized			
(in millions)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$30,022	$876	$427	$106	$31,431
Commercial real estate	7,354	329	61	65	7,809
Leases	3,924	12	50	—	3,986
Total	$41,300	$1,217	$538	$171	$43,226

The recorded investment in classes of retail loans, categorized by delinquency status is as follows:

	September 30, 2015				
(in millions)	Current	1-29 Days Past Due	30-89 Days Past Due	90 Days or More Past Due	Total
Residential mortgages	$12,358	$107	$78	$249	$12,792
Home equity loans	2,478	179	46	139	2,842
Home equity lines of credit	14,060	401	77	169	14,707
Home equity loans serviced by others [1]	956	58	21	19	1,054
Home equity lines of credit serviced by others [1]	344	56	14	27	441
Automobile	12,859	858	130	29	13,876
Student	3,689	90	28	39	3,846
Credit cards	1,543	51	19	15	1,628
Other retail	902	55	15	4	976
Total	$49,189	$1,855	$428	$690	$52,162

[1] The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

	December 31, 2014				
(in millions)	Current	1-29 Days Past Due	30-89 Days Past Due	90 Days or More Past Due	Total
Residential mortgages	$11,352	$114	$97	$269	$11,832
Home equity loans	2,997	222	60	145	3,424
Home equity lines of credit	14,705	447	73	198	15,423
Home equity loans serviced by others [1]	1,101	78	26	23	1,228
Home equity lines of credit serviced by others [1]	455	66	10	19	550
Automobile	11,839	758	93	16	12,706
Student	2,106	108	25	17	2,256
Credit cards	1,615	39	22	17	1,693
Other retail	985	65	18	4	1,072
Total	$47,155	$1,897	$424	$708	$50,184

[1] The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

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Nonperforming Assets
A summary of nonperforming loans and leases by class is as follows:

	September 30, 2015			December 31, 2014		
(in millions)	Nonaccruing	Accruing and 90 Days or More Delinquent	Total Nonperforming Loans and Leases	Nonaccruing	Accruing and 90 Days or More Delinquent	Total Nonperforming Loans and Leases
Commercial	$81	$7	$88	$113	$1	$114
Commercial real estate	42	—	42	50	—	50
Leases	—	—	—	—	—	—
Total commercial	123	7	130	163	1	164
Residential mortgages	324	—	324	345	—	345
Home equity loans	200	—	200	203	—	203
Home equity lines of credit	214	—	214	257	—	257
Home equity loans serviced by others [1]	39	—	39	47	—	47
Home equity lines of credit serviced by others [1]	31	—	31	25	—	25
Automobile	38	—	38	21	—	21
Student	32	7	39	11	6	17
Credit cards	15	—	15	16	1	17
Other retail	3	1	4	5	—	5
Total retail	896	8	904	930	7	937
Total	$1,019	$15	$1,034	$1,093	$8	$1,101

[1] The Company’s SBO portfolio consists of purchased home equity loans and lin