



Investor Report

Citizens Financial Group, Inc.

March 31, 2014

**To the holders of the
4.15% Subordinated Notes due 2022**

**Issued under, and pursuant to the terms of,
an indenture dated as of September 28, 2012
between Citizens Financial Group, Inc.
and The Bank of New York Mellon, as Trustee**

Citizens Financial Group, Inc. is a subsidiary of The Royal Bank of Scotland Group plc. This report is being provided to the holders of the 4.15% Subordinated Notes due 2022 (the "Subordinated Notes") issued by Citizens Financial Group, Inc. under the terms of the Subordinated Note Indenture dated as of September 28, 2012 between Citizens Financial Group, Inc., as issuer, and The Bank of New York Mellon, as Trustee, as amended, supplemented or modified from time to time. This report is not intended for any other purpose.

Table of Contents

| | Page |
|--|-----------|
| <u>GLOSSARY OF ACRONYMS AND TERMS</u> | <u>1</u> |
| <u>SELECTED FINANCIAL DATA</u> | <u>3</u> |
| <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | <u>4</u> |
| <u>INTRODUCTION</u> | <u>5</u> |
| <u>EXECUTIVE OVERVIEW</u> | <u>5</u> |
| <u>RECENT EVENTS</u> | <u>6</u> |
| <u>RESULTS OF OPERATIONS - THE THREE MONTHS ENDED MARCH 31, 2014 COMPARED WITH THE THREE MONTHS ENDED MARCH 31, 2013</u> | <u>6</u> |
| <u>NET INCOME</u> | <u>6</u> |
| <u>NET INTEREST INCOME</u> | <u>7</u> |
| <u>NONINTEREST INCOME</u> | <u>8</u> |
| <u>PROVISION FOR CREDIT LOSSES</u> | <u>9</u> |
| <u>NONINTEREST EXPENSE</u> | <u>9</u> |
| <u>PROVISION FOR INCOME TAXES</u> | <u>9</u> |
| <u>ANALYSIS OF FINANCIAL CONDITION</u> | <u>10</u> |
| <u>LOANS AND LEASES</u> | <u>10</u> |
| <u>NON-CORE ASSETS</u> | <u>11</u> |
| <u>ALLOWANCE FOR CREDIT LOSSES AND NONPERFORMING ASSETS</u> | <u>12</u> |
| <u>SECURITIES</u> | <u>13</u> |
| <u>DERIVATIVES</u> | <u>14</u> |
| <u>CAPITAL</u> | <u>14</u> |
| <u>CRITICAL ACCOUNTING ESTIMATES</u> | <u>16</u> |
| <u>ENTERPRISE RISK MANAGEMENT</u> | <u>16</u> |
| <u>INDEPENDENT AUDITORS' REVIEW REPORT</u> | <u>20</u> |
| <u>CONSOLIDATED BALANCE SHEETS</u> | <u>21</u> |
| <u>CONSOLIDATED STATEMENTS OF OPERATIONS</u> | <u>22</u> |
| <u>CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME</u> | <u>23</u> |
| <u>CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY</u> | <u>24</u> |
| <u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u> | <u>25</u> |
| <u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u> | <u>26</u> |
| <u>NOTE 1 - BASIS OF PRESENTATION</u> | <u>26</u> |
| <u>NOTE 2 - SECURITIES</u> | <u>27</u> |
| <u>NOTE 3 - LOANS AND LEASES</u> | <u>31</u> |
| <u>NOTE 4 - ALLOWANCE FOR CREDIT LOSSES, NONPERFORMING ASSETS, AND CONCENTRATIONS OF CREDIT RISK</u> | <u>32</u> |
| <u>NOTE 5 - MORTGAGE BANKING</u> | <u>41</u> |
| <u>NOTE 6 - EMPLOYEE BENEFITS</u> | <u>43</u> |
| <u>NOTE 7 - INCOME TAXES</u> | <u>43</u> |
| <u>NOTE 8 - DERIVATIVES</u> | <u>43</u> |
| <u>NOTE 9 - CONTINGENCIES</u> | <u>46</u> |
| <u>NOTE 10 - DIVESTITURES AND BRANCH ASSETS AND LIABILITIES HELD FOR SALE</u> | <u>48</u> |
| <u>NOTE 11 - FAIR VALUE MEASUREMENTS</u> | <u>48</u> |
| <u>NOTE 12 - REGULATORY MATTERS</u> | <u>54</u> |
| <u>NOTE 13 - SUPPLEMENTAL CASH FLOW INFORMATION</u> | <u>55</u> |
| <u>NOTE 14 - RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME</u> | <u>56</u> |
| <u>NOTE 15 - BUSINESS SEGMENTS</u> | <u>57</u> |
| <u>NOTE 16 - SHARE BASED COMPENSATION</u> | <u>59</u> |
| <u>NOTE 17 - EARNINGS PER SHARE</u> | <u>60</u> |
| <u>NOTE 18 - OTHER OPERATING EXPENSE</u> | <u>60</u> |
| <u>NOTE 19 - SUBSEQUENT EVENTS</u> | <u>60</u> |

CITIZENS FINANCIAL GROUP, INC.

GLOSSARY OF ACRONYMS AND TERMS

GLOSSARY OF ACRONYMS AND TERMS

The following listing provides a comprehensive reference of common acronyms and terms used throughout the document:

| | |
|---------------------------------------|--|
| AFS | Available For Sale |
| ALLL | Allowance for Loan and Lease Losses |
| AOCI | Accumulated Other Comprehensive Income |
| ATM | Automatic Teller Machine |
| BHC | Bank Holding Company |
| bps | Basis Points |
| Capital Plan Rule | Federal Reserve's Regulation Y Capital Plan Rule |
| CBNA | Citizens Bank, National Association |
| CBPA | Citizens Bank of Pennsylvania |
| CCAR | Comprehensive Capital Analysis and Review |
| CCB | Capital Conservation Buffer |
| CEB | Commercial Enterprise Banking |
| CEO | Chief Executive Officer |
| 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 |
| CRA | Community Reinvestment Act of 1977 |
| CSA | Credit Support Annex |
| Dodd-Frank Act (DFA) | The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 |
| EC | Economic Capital |
| EPS | Earnings Per Share |
| ERISA | Employee Retirement Income Security Act of 1974 |
| Fannie Mae (FNMA) | The Federal National Mortgage Association |
| FASB | The Financial Accounting Standards Board |
| FDIC | Federal Deposit Insurance Corporation |
| FDICIA | Federal Deposit Insurance Corporation Improvement Act of 1991 |
| FHC | Financial Holding Company |
| FHLB | Federal Home Loan Bank |
| FICO | Fair Isaac Corporation (credit rating) |
| FLSA | Fair Labor Standards Act of 1938, as amended |
| FRB | Federal Reserve Bank |
| FRBG | Federal Reserve Board of Governors |
| Freddie Mac (FHLMC) | The 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) | The Government National Mortgage Association |
| GLBA | Gramm-Leach-Bliley Act of 1999 |
| HELOC | Home Equity Line of Credit |
| HTM | Held To Maturity |
| ICAR | Internal Capital Adequacy Requirement |

CITIZENS FINANCIAL GROUP, INC.

GLOSSARY OF ACRONYMS AND TERMS

| | |
|--------------------------|---|
| IFRS | International Financial Reporting Standards |
| ILP | Incurred Loss Period |
| IST | Integrated Stress Testing |
| IT | Information Technology |
| LCR | Liquidity Coverage Ratio |
| LIBOR | London Interbank Offered Rate |
| LOB | Line of Business |
| 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 |
| NPR | Notice of Proposed Rulemaking |
| OCC | Office of the Comptroller of the Currency |
| OCI | Other Comprehensive Income |
| OIS | Overnight Index Swap |
| OTC | Over the Counter |
| PIMCO | Pacific Investment Management Company, LLC |
| RBS | The Royal Bank of Scotland plc. |
| RBS CBFM | The Royal Bank of Scotland plc. Corporate Banking and Financial Markets |
| RBSG or RBS Group | The Royal Bank of Scotland Group plc. and its subsidiaries |
| REIT | Real Estate Investment Trust |
| ROTCE | Return on Tangible Common Equity |
| RPA | Risk Participation Agreement |
| RV | Recreational Vehicle |
| SBO | Serviced by Others loan portfolio |
| SIFI | Systematically Important Financial Institutions |
| TDR | Troubled Debt Restructuring |
| UK | United Kingdom |

CITIZENS FINANCIAL GROUP, INC.

SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

We derived the selected consolidated statement of operations data for the three months ended March 31, 2014 and 2013 and the selected consolidated balance sheet data at March 31, 2014 and December 31, 2013 from our consolidated financial statements. Our historical results are not necessarily indicative of the results expected for any future period.

You should read the following selected consolidated financial data in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto.

| (dollars in millions) | Three Months Ended March 31, | |
|--|------------------------------|-------|
| | 2014 | 2013 |
| OPERATING DATA: | | |
| Net interest income | \$808 | \$760 |
| Provision for credit losses | 121 | 90 |
| Noninterest income | 358 | 433 |
| Noninterest expense | 810 | 821 |
| Income before income tax expense | 235 | 282 |
| Income tax expense | 69 | 99 |
| Net income | 166 | 183 |
| OTHER OPERATING DATA: | | |
| Return on average common equity | 3.48% | 3.07% |
| Return on average tangible common equity | 5.24% | 5.49% |
| Return on average total assets | 0.54% | 0.60% |
| Return on average total tangible assets | 0.57% | 0.66% |
| Net interest margin | 2.89% | 2.84% |

| (dollars in millions) | March 31, | December 31, |
|---|-----------|--------------|
| | 2014 | 2013 |
| BALANCE SHEET DATA: | | |
| Total assets | \$126,892 | \$122,154 |
| Total securities | 24,804 | 21,245 |
| Loans and leases ⁽¹⁾ | 87,083 | 85,859 |
| Allowance for loan and lease losses | 1,259 | 1,221 |
| Goodwill | 6,876 | 6,876 |
| Total liabilities | 107,450 | 102,958 |
| Deposits ⁽²⁾ | 87,462 | 86,903 |
| Federal funds purchased and securities sold under agreements to repurchase | 6,080 | 4,791 |
| Other short-term borrowed funds | 4,950 | 2,251 |
| Long-term borrowed funds | 1,403 | 1,405 |
| Total stockholders' equity | 19,442 | 19,196 |
| OTHER BALANCE SHEET DATA: | | |
| Asset Quality Ratios: | | |
| Allowance for loan and lease losses as a percentage of total loans and leases | 1.45% | 1.42% |
| Allowance for loan and lease losses as a percentage of nonperforming loans and leases | 92% | 86% |
| Nonperforming loans and leases as a percentage of total loans and leases | 1.57% | 1.65% |
| Capital Ratios: | | |
| Tier 1 capital ratio | 13.4% | 13.5% |
| Total capital ratio | 16.0% | 16.1% |
| Leverage ratio | 11.4% | 11.6% |

⁽¹⁾ Excludes loans held for sale.

⁽²⁾ Excludes deposits held for sale.

CITIZENS FINANCIAL GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations provides information that management believes will assist in understanding the financial performance of Citizens. You should read the MD&A together with the consolidated financial statements and the notes to consolidated financial statements.

FORWARD-LOOKING STATEMENTS

The information included in this report contains certain forward-looking statements. These forward-looking statements may relate to our financial condition, results of operations, plans, objectives, future performance and business, including, but not limited to, statements with respect to expected earnings levels, the adequacy of the allowance for credit losses, delinquency trends, market risk and the impact of interest rate changes, capital market conditions, capital adequacy and liquidity, the effect of legal proceedings, and new accounting standards on our financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words "anticipate," "believe," "continue," "expect," "estimate," "intend," "project" and similar expressions and future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may," or similar expressions are generally intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance, are based on management's current expectations and, by their nature, involve certain risks, uncertainties, estimates and assumptions by management that are difficult to predict. Various factors, some of which are beyond our control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- the rate of growth in the economy and employment levels, as well as general business and economic conditions;
- 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;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the impact of the Dodd Frank Act on our businesses, business practices and costs of operations;
- the relative strength or weakness of the retail and commercial credit sectors and of the real estate markets in the markets in which our borrowers are located;
- competition in the financial services industry; and
- legislative, tax, accounting or regulatory changes.

Other possible events or factors that could cause results or performance to differ materially from those expressed in such forward-looking statements include the following:

- negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of nonperforming assets, charge-offs and provision expense;
- adverse movements and volatility in debt and equity capital markets;
- changes in market rates and prices, which may adversely impact the value of financial assets and liabilities;
- liabilities resulting from litigation and regulatory investigations;
- our ability to grow our core businesses;
- decisions to downsize, sell or close units or otherwise change our business mix; and
- management's ability to identify and manage these and other risks.

All forward-looking statements included in this document are based upon information available to us as of the date of this document, and other than as required by law, including the requirements of applicable securities laws. We assume no obligation to update or revise any such forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

CITIZENS FINANCIAL GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

We are a BHC and FHC headquartered in Providence, Rhode Island, consisting of approximately 18,500 employees that strive to meet the financial needs of customers and prospects through approximately 1,350 branches and 3,500 ATMs. We conduct our operations through our two wholly owned banking subsidiaries, CBNA and CBPA, in a 12-state footprint across the New England, Mid-Atlantic and Midwest regions. We have over 80 retail and commercial non-branch offices located both in our geographic footprint and in five states and the District of Columbia outside our branch footprint and through our online, telephone and mobile banking platforms.

We are a wholly-owned subsidiary of The Royal Bank of Scotland plc, a banking subsidiary of the ultimate parent, The Royal Bank of Scotland Group plc. On December 1, 2008, the UK Government became the ultimate controlling party of RBS Group. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government.

EXECUTIVE OVERVIEW

First quarter 2014 net income declined \$17 million, or 9%, from the first quarter of 2013 as the benefit of higher net interest income and lower expenses was more than offset by the effect of lower noninterest income and increased provision for credit losses.

First quarter 2014 net interest income rose \$48 million from the first quarter of 2013 and included the benefit of higher securities and loan portfolio balances and a reduction in deposit costs as we continued to reduce our reliance on higher cost term deposits. Results also reflected a reduction in swap and wholesale funding costs somewhat mitigated by the impact of declining loan yields given the relatively persistent low rate environment.

Net interest margin improved six basis points to 2.89% in the first quarter of 2014 from 2.83% in the fourth quarter of 2013 driven by a reduction in interest rate swap hedging costs, improved yields on interest-earning assets and the benefit of the continued shift in deposit mix towards lower cost core deposits. Net interest margin improved five basis points as the benefit of lower deposit and wholesale funding costs was partially offset by the effect of declining loan and securities portfolio yields from the first quarter of 2013.

The provision for credit losses of \$121 million increased \$31 million from the first quarter of 2013, which included a reserve release of \$35 million as the asset quality continued to improve and charge-offs declined. The total provision for credit losses includes the provision for loan and lease losses as well as the provision for unfunded commitments.

Noninterest income of \$358 million in the first quarter of 2014 declined \$75 million from the first quarter of 2013, largely reflecting lower securities gains, mortgage banking fees, and service charges and fees.

Noninterest expense of \$810 million in the first quarter of 2014 decreased \$11 million from the first quarter of 2013 driven by a \$30 million reduction in salaries and employee benefits which reflected a reduction in full-time equivalent headcount and lower incentive compensation expense.

Total assets increased \$4.7 billion to \$126.9 billion at March 31, 2014 from \$122.2 billion at December 31, 2013. The increase from year end 2013 was driven by a \$3.6 billion increase in the securities portfolio and loan and lease portfolio growth of \$1.2 billion reflecting higher balances in the automobile, mortgage and commercial portfolios which were partially offset by a \$184 million decline in the non-core portfolio. The increase in loans included acquisitions of \$483 million in residential loans, \$202 million in auto loans and \$40 million in student loans.

Average earning assets at March 31, 2014 increased \$3.5 billion from the prior quarter, as a \$2.2 billion increase in mortgage backed securities as well as higher automobile, residential mortgage, and commercial loan and lease outstandings, were partially offset by a reduction in home equity balances. Average earning assets rose as higher investment securities, commercial loans and leases, automobile and residential mortgage balances were partially offset by the effect of higher refinancing rates on the home equity portfolios.

The securities portfolio totaled \$24.8 billion at March 31, 2014 up \$3.6 billion, or 17%, from December 31, 2013 driven by the addition of longer duration fixed-rate assets.

Total period-end loans and leases of \$87.1 billion increased \$1.2 billion at the end of the first quarter of 2014 up from \$85.9 billion at December 31, 2013. Strength in mid corporate, healthcare and franchise finance commercial loans as well as growth in purchased mortgage and auto loans were partially offset by non-core runoff.

CITIZENS FINANCIAL GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Average loans of \$86.1 billion increased \$316 million from the fourth quarter of 2013 driven by growth in asset finance, mid corporate, franchise and technology loans, which was largely offset by decreases in commercial real estate line of credit outstandings and seasonally lower business capital balances. Results reflected a \$289 million decrease in average loans related to the non-core portfolio.

Total period-end deposits of \$87.5 billion increased \$559 million from December 31, 2013 while average deposits decreased \$6.8 billion driven by the effect of a \$5.3 billion transfer of deposits to held for sale at year end 2013 connected to our decision to sell our Chicago-area retail branches, small business relationships and select middle market relationships.

Excluding the above transfer, average deposits decreased \$1.6 billion driven by decreases in term deposits and higher rate money market deposits as we continue to reduce our reliance on higher cost deposits. We continue to make solid progress toward improving the level of our lower cost demand, interest checking and savings deposit base and reducing our reliance on higher cost term and money market deposits.

Capital remained strong with a Tier 1 common equity ratio of 13.4% and a Total Capital Ratio of 16.0% at March 31, 2014. These ratios remained stable compared to the prior quarter.

Recent Events

In January 2014, we announced an agreement to sell our Chicago-area retail branches, small business relationships and select middle market relationships. As of March 31, 2014, this agreement included 103 branches with \$5.2 billion of deposits and \$1.0 billion in loans. For the three months ended March 31, 2014, the corresponding interest and fees on these loans was \$11 million and interest expense on deposits was \$2 million. We intend to reinvest the sale proceeds into higher return, higher growth businesses. This transaction is anticipated to close in mid-2014, subject to satisfaction of customary closing conditions.

Results Of Operations - The Three Months Ended March 31, 2014 Compared With The Three Months Ended March 31, 2013

Net Income

We reported net income of \$166 million for the three months ended March 31, 2014, which decreased \$17 million or 9% from \$183 million for the three months ended March 31, 2013, as the benefit of higher net interest income and lower expenses was more than offset by the effect of lower noninterest income and increased provision for credit losses.

| | Three Months Ended March 31, | | Increase (Decrease) | |
|----------------------------------|------------------------------|-------|---------------------|------|
| | 2014 | 2013 | \$ | % |
| | (dollars in millions) | | | |
| Operating Data: | | | | |
| Net interest income | \$808 | \$760 | \$48 | 6% |
| Noninterest income | 358 | 433 | (75) | (17) |
| Total revenue | 1,166 | 1,193 | (27) | (2) |
| Provision for credit losses | 121 | 90 | 31 | 34 |
| Noninterest expense | 810 | 821 | (11) | (1) |
| Income before income tax expense | 235 | 282 | (47) | (17) |
| Income tax expense | 69 | 99 | (30) | (30) |
| Net income | \$166 | \$183 | (\$17) | (9) |

CITIZENS FINANCIAL GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net Interest Income

The following tables show the major components of net interest income and net interest margin:

| | Three Months Ended March 31, | | | | | | Increase (Decrease) | |
|--|------------------------------|--------------------|------------------|---------------------|--------------------|------------------|---------------------|------------------|
| | 2014 | | | 2013 | | | From 2014-2013 | |
| | Average Balances | Income/ Expense | Yields/ Rates | Average Balances | Income/ Expense | Yields/ Rates | Average Balances | Yields/ Rates |
| (dollars in millions) | | | | | | | | |
| Assets | | | | | | | | |
| Taxable investment securities | \$25,143 | \$150 | 2.39% | \$20,908 | \$123 | 2.36% | \$4,235 | 3 bps |
| Non-taxable investment securities | 11 | — | 2.60 | 13 | — | 2.82 | (2) | (22) |
| Total investment securities | 25,154 | 150 | 2.39 | 20,921 | 123 | 2.36 | 4,233 | 3 |
| Commercial | 29,108 | 219 | 3.01 | 28,637 | 219 | 3.06 | 471 | (5) |
| Commercial real estate | 6,898 | 45 | 2.58 | 6,507 | 44 | 2.71 | 391 | (13) |
| Leases | 3,723 | 26 | 2.84 | 3,337 | 27 | 3.22 | 386 | (38) |
| Total commercial | 39,729 | 290 | 2.92 | 38,481 | 290 | 3.01 | 1,248 | (9) |
| Home equity lines of credit | 16,250 | 114 | 2.85 | 17,448 | 121 | 2.82 | (1,198) | 3 |
| Residential mortgage | 9,889 | 98 | 3.98 | 9,195 | 93 | 4.05 | 694 | (7) |
| Home equity loans | 5,685 | 79 | 5.63 | 6,897 | 99 | 5.81 | (1,212) | (18) |
| Automobile | 9,408 | 59 | 2.54 | 8,798 | 62 | 2.84 | 610 | (30) |
| Student and other installment loans | 3,532 | 48 | 5.49 | 3,814 | 51 | 5.46 | (282) | 3 |
| Credit cards | 1,639 | 42 | 10.31 | 1,654 | 43 | 10.60 | (15) | (29) |
| Total retail | 46,403 | 440 | 3.85 | 47,806 | 469 | 3.98 | (1,403) | (13) |
| Total loans and leases | 86,132 | 730 | 3.41 | 86,287 | 759 | 3.54 | (155) | (13) |
| Loans held for sale | 127 | 1 | 3.29 | 505 | 4 | 2.89 | (378) | 40 |
| Other loans held for sale | 1,092 | 12 | 4.21 | 7 | — | 10.63 | 1,085 | (642) |
| Interest earning assets | 112,505 | 893 | 3.19 | 107,720 | 886 | 3.31 | 4,785 | (12) |
| Allowance for loan and lease losses | (1,238) | | | (1,234) | | | (4) | |
| Goodwill | 6,876 | | | 11,311 | | | (4,435) | |
| Other noninterest earning assets | 5,761 | | | 5,939 | | | (178) | |
| Total noninterest earning assets | 11,399 | | | 16,016 | | | (4,617) | |
| Total assets | \$123,904 | | | \$123,736 | | | \$168 | |
| Liabilities and Stockholders' Equity | | | | | | | | |
| Checking with interest | \$13,317 | \$2 | 0.06% | \$14,229 | \$2 | 0.05% | (\$912) | 1 bps |
| Money market & savings | 38,919 | 16 | 0.17 | 43,469 | 31 | 0.29 | (4,550) | (12) |
| Term deposits | 9,334 | 15 | 0.65 | 11,385 | 28 | 0.99 | (2,051) | (34) |
| Total interest bearing deposits | 61,570 | 33 | 0.22 | 69,083 | 61 | 0.36 | (7,513) | (14) |
| Interest bearing deposits held for sale | 4,233 | 2 | 0.23 | — | — | — | 4,233 | 23 |
| Federal funds purchased and securities sold under agreements to repurchase ⁽¹⁾ | 5,707 | 15 | 1.02 | 2,337 | 59 | 10.16 | 3,370 | (914) |
| Other short-term borrowed funds | 3,637 | 19 | 2.07 | 567 | 1 | 0.43 | 3,070 | 164 |
| Long-term borrowed funds | 1,405 | 16 | 4.61 | 669 | 5 | 3.07 | 736 | 154 |
| Total borrowed funds | 10,749 | 50 | 1.84 | 3,573 | 65 | 7.30 | 7,176 | (546) |
| Total interest bearing liabilities | 76,552 | 85 | 0.45 | 72,656 | 126 | 0.69 | 3,896 | (24) |
| Demand deposits | 24,796 | | | 24,551 | | | 245 | |
| Demand deposits held for sale | 997 | | | — | | | 997 | |
| Other liabilities | 2,189 | | | 2,329 | | | (140) | |
| Stockholders' equity | 19,370 | | | 24,200 | | | (4,830) | |
| Total liabilities and stockholders' equity | \$123,904 | | | \$123,736 | | | \$168 | |
| Interest rate spread | | | 2.74% | | | 2.62% | | |
| Net interest income | | \$808 | | | \$760 | | \$48 | |
| Net interest margin | | | 2.89% | | | 2.84% | | 5 bps |

⁽¹⁾Balances are net of certain short-term receivables associated with reverse repurchase agreements. Interest expense includes the full cost of the repurchase agreements and certain hedging costs. The rate on federal funds purchased is elevated due to the impact from pay-fixed interest rate swaps that are scheduled to runoff by the end of 2015.

For the three months ended March 31, 2014, net interest income of \$808 million increased \$48 million from the first quarter of 2013 and net interest margin improved five basis points to 2.89%. The increase in net interest income was driven by growth in average interest earning assets of \$4.8 billion, as well as lower funding costs on deposits and reduced expense tied to maturing pay-fixed swaps.

CITIZENS FINANCIAL GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net average loan balances including loans designated as held for sale increased \$552 million in 2014 compared to 2013 and interest on loans decreased \$20 million during the same period. Total average securities grew in 2014 by \$4.2 billion compared to 2013 as the bank responded to higher rates seen in the second half of 2013. Yields on earning assets declined 12 basis points compared to the same period last year. Yields on the investment portfolio increased three basis points and loan portfolio yields declined 13 basis points, respectively from 2013. The decline in loan yields was driven by runoff and prepayments of higher-yielding fixed rate assets which were replaced by new purchases and originations with lower yields given the rate environment.

Total average interest bearing deposit balances including interest bearing deposits designated as held for sale declined \$3.3 billion in 2014 compared to 2013, primarily in money market and savings while demand deposit account balances grew \$1.2 billion. Interest expense was reduced by \$26 million and deposit costs declined 14 basis points. In addition, Citizens' cost of borrowed funds declined \$15 million, or 546 basis points, due to maturing legacy fixed rate swaps that carried high pay-fixed interest rates.

Total interest-bearing deposit yields, were 0.22% and 0.36% for the three months ended March 31, 2014 and 2013, respectively. Rates on term deposits were 0.65% and 0.99% for the three months ended March 31, 2014 and 2013, respectively, while rates on money market and savings declined from 0.29% in 2013 to 0.17% in 2014. Many deposits products are close to pricing floors at or near zero, limiting further rate reductions.

Excluding the impact of the hedge expense and the netting of repurchase agreement balances, the federal funds purchased and securities sold under agreement to repurchase rates were 2.16% and 3.15% for the quarters ended March 31, 2014 and 2013, respectively.

Within the Federal Funds purchased and securities sold under agreement category, pay-fixed swap expense declined to \$29 million for the three months ended March 31, 2014 compared to \$58 million for the same period in 2013. Over the same period, \$2.2 billion of the notional swap balances matured with a remaining balance of \$1.5 billion as of March 31, 2014. Excluding the impact of the hedge expense, total borrowed funds rates were 1.84% and 7.40% for the three months ended March 31, 2014 and 2013, respectively.

Noninterest Income

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

| | Three Months Ended March 31, | | Increase (Decrease) \$ | Increase (Decrease) % |
|---|-------------------------------|--------------|------------------------------|-----------------------------|
| | 2014 (dollars in millions) | 2013 | | |
| Service charges and fees | \$139 | \$161 | (\$22) | (14)% |
| Card fees | 56 | 54 | 2 | 4 |
| Trust and investment services fees | 39 | 34 | 5 | 15 |
| Foreign exchange and trade finance fees | 22 | 24 | (2) | (8) |
| Mortgage banking fees | 20 | 46 | (26) | (57) |
| Capital markets fees | 18 | 15 | 3 | 20 |
| Bank-owned life insurance income | 11 | 13 | (2) | (15) |
| Securities gains, net | 25 | 52 | (27) | (52) |
| Other income ⁽¹⁾ | 28 | 34 | (6) | (18) |
| Total noninterest income | \$358 | \$433 | (\$75) | (17)% |

⁽¹⁾ Includes net impairment losses on available for sale securities recognized in earnings, other net gains, and other income.

Noninterest income decreased \$75 million, or 17%, to \$358 million for the three months ended March 31, 2014, compared to \$433 million for the three months ended March 31, 2013. This decrease largely reflected lower securities gains, mortgage banking fees, and service charges and fees.

CITIZENS FINANCIAL GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Provision for Credit Losses

The provision for credit losses for the three months ended March 31, 2014 totaled \$121 million, up \$31 million from the three months ended March 31, 2013, despite a \$38 million reduction in net charge-offs over the same time frame, while credit quality continued to improve during the quarter. The reserve increase was driven by a \$1.2 billion increase in loans and commercial loan methodology enhancements. The March 31, 2014 provision fell by \$11 million from the three months ended December 31, 2013 reflecting asset quality improvement and lower charge-offs, offset by the aforementioned increase in reserves during the quarter. The total provision for credit losses includes the provision for loan and lease losses as well as the provision for unfunded commitments.

Noninterest Expense

The following table displays the significant components of total noninterest expense:

| | Three Months Ended March 31, | | Increase (Decrease) | Increase (Decrease) |
|----------------------------------|-------------------------------------|--------------|--------------------------------|--------------------------------|
| | 2014 | 2013 | | |
| | (dollars in millions) | | \$ | % |
| Salaries and employee benefits | \$405 | \$435 | (\$30) | (7)% |
| Outside services | 83 | 85 | (2) | (2) |
| Occupancy | 81 | 85 | (4) | (5) |
| Equipment expense | 64 | 68 | (4) | (6) |
| Amortization of software | 31 | 21 | 10 | 48 |
| Other operating expense | 146 | 127 | 19 | 15 |
| Total noninterest expense | \$810 | \$821 | (\$11) | (1)% |

Noninterest expense of \$810 million decreased \$11 million from \$821 million for the three months ended March 31, 2013 driven by a \$30 million reduction in salaries and employee benefits due to lower full time equivalent headcount and incentive compensation expense.

Provision for Income Taxes

The provision for income taxes was \$69 million and \$99 million for the three months ended March 31, 2014 and 2013, respectively. The provision represented a 29% and 35% effective tax rate for the three months ending March 31, 2014 and 2013, respectively. The decrease in the effective rate from 2013 to 2014 was largely attributable to the increased federal tax credits from low income housing partnerships beginning in the first quarter of 2014. This increase reflected growth in our low income housing investment portfolio. Another substantive item driving the year over year decrease was the reversal of a deferred tax liability within our leasing entity for which no state tax will be incurred.

At March 31, 2014, we reported a net deferred tax liability of \$319 million, compared to a \$199 million liability at December 31, 2013. The increase in the net deferred tax liability was largely attributable to the utilization of net operating loss and tax credit carryforwards, as well as a decrease in the unrealized loss on securities available for sale, derivative instruments and hedging activities.

CITIZENS FINANCIAL GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Analysis of Financial Condition

Loans and Leases

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

| | March 31, 2014 | December 31, 2013 | Increase (Decrease) | Increase (Decrease) |
|--|-------------------|----------------------|------------------------|------------------------|
| | (dollars in | millions) | \$ | % |
| Commercial | \$29,435 | \$28,667 | \$768 | 3% |
| Commercial real estate | 6,902 | 6,948 | (46) | (1) |
| Leases | 3,738 | 3,780 | (42) | (1) |
| Total commercial | 40,075 | 39,395 | 680 | 2 |
| Residential, including originated home equity products | 29,761 | 29,694 | 67 | — |
| Home equity products serviced by others | 2,075 | 2,171 | (96) | (4) |
| Other secured retail | 11,216 | 10,700 | 516 | 5 |
| Unsecured retail | 3,956 | 3,899 | 57 | 1 |
| Total retail | 47,008 | 46,464 | 544 | 1 |
| Total loans and leases ⁽¹⁾ | \$87,083 | \$85,859 | \$1,224 | 1% |

⁽¹⁾ Excluded from the table above are loans held for sale totaling \$1.0 billion and \$1.1 billion as of March 31, 2014 and December 31, 2013, respectively. For further discussion, see Note 10, "Divestitures and Branch Assets and Liabilities Held for Sale," to our consolidated financial statements.

As of March 31, 2014, our loans and leases portfolio increased \$1.2 billion, or 1%, to \$87.1 billion compared to \$85.9 billion as of December 31, 2013, primarily reflecting increases in total retail loans, and commercial loans and leases. As of March 31, 2014, our commercial loans and leases grew \$680 million, or 2%, to \$40.1 billion compared to \$39.4 billion as of December 31, 2013 in large part due to growth in commercial loans. This growth was partly offset by a decrease in commercial real estate loans of \$46 million. As of March 31, 2014, total retail loans increased \$544 million, or 1%, to \$47.0 billion compared to \$46.5 billion as of December 31, 2013. This increase reflected higher other secured retail and unsecured retail outstandings, driven by the purchase of \$202 million of auto loans and a \$40 million student loan portfolio. Additionally, \$483 million of residential mortgage loans were purchased during the quarter ended March 31, 2014. These increases were partially offset by a decrease in our home equity products serviced by others of \$96 million, or 4%.

CITIZENS FINANCIAL GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Non-Core Assets

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

| | March 31, 2014 | December 31, 2013 | (Date of Designation) June 30, 2009 | Decrease from 2014-2013 | Decrease from 2014-2009 |
|--|-----------------------|----------------------|--|----------------------------|----------------------------|
| | (dollars in millions) | | | % | % |
| Commercial | \$94 | \$108 | \$1,900 | (13)% | (95)% |
| Commercial real estate | 340 | 381 | 3,412 | (11) | (90) |
| Total commercial | 434 | 489 | 5,312 | (11) | (92) |
| Residential, including originated home equity products | 677 | 705 | 2,082 | (4) | (67) |
| Home equity products serviced by others | 2,071 | 2,160 | 6,180 | (4) | (66) |
| Other secured retail | — | — | 4,037 | — | (100) |
| Unsecured retail | 394 | 406 | 2,490 | (3) | (84) |
| Total retail | 3,142 | 3,271 | 14,789 | (4) | (79) |
| Total non-core loans | 3,576 | 3,760 | 20,101 | (5) | (82) |
| Other assets | 78 | 81 | 378 | (4) | (79) |
| Total non-core assets | \$3,654 | \$3,841 | \$20,479 | (5)% | (82)% |

Non-core assets are primarily loans that are inconsistent with our strategic goals, generally as a result of geographic location, industry or product type or risk level. We have actively managed these loans down since they were designated as non-core on June 30, 2009. Since that time, we have runoff approximately \$8.9 billion, charged off \$3.8 billion, transferred back \$2.8 billion to the core portfolio, and sold \$1.3 billion.

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

At March 31, 2014, the non-core portfolio totaled \$3.7 billion and has declined 5% since December 31, 2013 and over 82% since the designation of the non-core portfolios in 2009. Commercial non-core loan balances declined 11% compared to the prior quarter, ending at \$434 million compared to \$489 million at December 31, 2013. Retail non-core loan balances of \$3.1 billion decreased 4% or \$129 million compared to December 31, 2013.

The largest component to our non-core portfolio is our home equity products currently or formerly serviced by others portfolio, or SBO. The SBO portfolio is a liquidating portfolio consisting of pools of home equity loans and lines of credit purchased between 2003 and 2007. The home equity products serviced by others portfolio has been closed to new purchases since the third quarter of 2007, with exposure down to \$2.1 billion as of March 31, 2014, compared to \$2.2 billion as of December 31, 2013. This non-core loan portfolio represents 6.5% of the entire retail real estate loan portfolio and 4.4% of the overall retail loan portfolio as of March 31, 2014.

The home equity products serviced by others non-core loan portfolio had an annual charge-off rate of 2.8% as of March 31, 2014 and a cumulative charge-off rate of 26.6% as of March 31, 2014. The elevated charge-off rate is attributed to out-of-footprint geographies (California, Nevada, Arizona and Florida), high second lien concentration (97%) and high loan-to-value exposure. Performance on the home equity products serviced by others portfolio continues to improve with delinquencies and losses decreasing steadily. The 90 days or more delinquency rate continued to trend lower at 1.6% as of March 31, 2014, a 12 basis points reduction from December 31, 2013. The continued improvement in performance was driven by portfolio liquidation (the weakest loans have been charged off), as well as more effective account servicing and collection strategies, and improvements in the real estate market.

CITIZENS FINANCIAL GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Allowance for Credit Losses and Nonperforming Assets

Our loan and lease portfolio totaled \$87.1 billion as of March 31, 2014, up 1% from \$85.9 billion as of December 31, 2013, as both the commercial and retail portfolios contributed equally to the loan growth. Commercial loans increased by \$680 million to \$40.1 billion, driven by corporate banking and healthcare lending, as a result of successful execution of the business strategy to deepen lending relationships with quality borrowers. Retail loans increased by \$544 million to \$47 billion as of March 31, 2014 from December 31, 2013, as growth in automobile lending offset a decline in home equity lending. The portfolio mix remained stable, as retail and commercial remained at 54% and 46%, respectively, as of March 31, 2014 compared to year-end 2013.

Overall credit performance is measured in terms of the net charge-off rate (net loans and leases charged off as uncollectible as a percentage of total loans and leases), delinquency rate (total loans and leases that are 30 or more days past due, as a percentage of total loans and leases), nonperforming loans and leases ratio (nonperforming loans and leases as a percentage of total loans and leases), and the ratio of loans and leases that have been criticized by regulators (consisting of Special Mention, Substandard and Doubtful) as a percentage of total loans and leases.

Our loan and lease portfolio credit quality continued to improve in the first quarter of 2014. The loan and lease portfolio net charge-off rate fell to 0.40% (annualized) for the three months ended March 31, 2014 from 0.59% for the year ended December 31, 2013, helped by continuing net recoveries in the commercial loan portfolio and an overall improvement in retail charge-offs, which declined to \$95 million for the three months ended March 31, 2014, versus \$140 million in the same period in 2013. The delinquency rate improved to 1.70% at March 31, 2014 from 1.88% at December 31, 2013, while the nonperforming loans ratio declined to 1.57% at March 31, 2014, from 1.65% at December 31, 2013. Criticized loans and leases remained at \$1.9 billion, representing 2.19% of total loans and leases at March 31, 2014, versus 2.23% at December 31, 2013. Nonperforming loans and leases at March 31, 2014 declined \$53 million from December 31, 2013 to \$1.4 billion driven by a \$37 million decrease in commercial loans and commercial real estate and improvement across all the retail loan classes, particularly residential, including originated home equity products. Nonperforming loans to total loans were 1.57% as of March 31, 2014 compared with 1.65% as of December 31, 2013.

The \$1.3 billion allowance for credit losses at March 31, 2014 has remained stable over prior quarter and prior year, increasing \$34 million, or 2.7% from December 31, 2013. The March 31, 2014 ALLL increase was primarily a function of the aforementioned \$1.2 billion increase in loans and the implementation of commercial loan methodology enhancements, despite continued credit quality improvement during the quarter. The reserve to nonperforming asset coverage ratio improved to 92% at March 31, 2014 compared to 86% at December 31, 2013.

Commercial Loan Asset Quality

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

During the three months ended March 31, 2014, the quality of the commercial loan portfolio remained steady. As of March 31, 2014, total criticized loans reduced slightly to 4.8%, or \$1.9 billion, of the commercial loan portfolio compared to 4.9%, or \$1.9 billion at December 31, 2013. Commercial real estate criticized balances decreased 12.0% to 7.4%, or \$512 million, of the commercial real estate portfolio compared to 8.4% as of December 31, 2013. Commercial real estate accounted for 26.8% of the criticized loans as of March 31, 2014, compared to 30.4% as of December 31, 2013. 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," in our consolidated financial statements for further discussion.

Similarly, nonperforming balances and charge-offs have displayed a positive trend in 2014. As of March 31, 2014, nonperforming commercial balances decreased \$35 million, or 13%, to \$230 million, compared to \$265 million as of December 31, 2013, with an 8% decline in commercial real estate nonperforming loans over the same period. As of March 31, 2014, nonperforming loans stood at 0.6% of the commercial loan portfolio compared to 0.7% as of December 31, 2013. Similarly, net charge-offs in our commercial loan portfolio for the three months ended March 31, 2014 decreased \$26 million which resulted in a net recovery of \$8 million. Charge-off performance continues to be positively influenced by recoveries and lower gross losses driven by improved economic conditions and a strategic focus on high quality new business.

Retail Loan Asset Quality

For retail loans, we primarily use the loan's payment and delinquency status to monitor credit quality. The further a loan is past due, the greater the likelihood of future credit loss. These credit quality indicators are continually updated and monitored. Our retail loan portfolio remains predominantly focused on lending across the New England, Mid-Atlantic and Midwest regions,

CITIZENS FINANCIAL GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

with continued geographic expansion outside the footprint with the auto finance and student lending portfolios. Originations within the footprint are primarily initiated through the branch network, whereas out-of-footprint lending is driven by indirect auto loans in dealer networks and student loans via the our online platform.

The credit composition of our retail loan portfolio at March 31, 2014 remained favorable and well positioned across all product lines with an average refreshed FICO score of 753, down one point from December 31, 2013. Real estate CLTV of 68.1% as of March 31, 2014 was up marginally from 67.8% as of December 31, 2013 (excluding the SBO CLTV was 65.8%). The favorable improvement in collateral composition is attributed to rising house values and the continued booking of loans with conservative CLTVs.

The March 31, 2014 loss rate of 0.2% was flat versus the quarter ended December 31, 2013. The 30 days or more past due delinquency rate of 2.5% as of March 31, 2014 improved from 2.6% as of December 31, 2013. Nonperforming retail loans of 2.4% as of March 31, 2014 improved 7 basis points from December 31, 2013.

Securities

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

| | March 31, 2014 | | December 31, 2013 | | Increase (Decrease) in Fair Value | |
|---|-----------------------|-----------------|-------------------|-----------------|--------------------------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | \$ | % |
| | (dollars in millions) | | | | | |
| <u>Available for Sale Securities</u> | | | | | | |
| U.S. Treasury | \$15 | \$15 | \$15 | \$15 | \$— | —% |
| State and political subdivisions | 11 | 10 | 11 | 10 | — | — |
| Mortgage-backed securities: | | | | | | |
| Federal agencies and U.S. government sponsored entities | 17,394 | 17,455 | 14,970 | 14,993 | 2,462 | 16 |
| Other/non-agency | 933 | 907 | 992 | 952 | (45) | (5) |
| Total mortgage-backed securities | 18,327 | 18,362 | 15,962 | 15,945 | 2,417 | 15 |
| Total debt securities | 18,353 | 18,387 | 15,988 | 15,970 | 2,417 | 15 |
| Marketable equity securities | 10 | 13 | 10 | 13 | — | — |
| Other equity securities | 12 | 12 | 12 | 12 | — | — |
| Total equity securities | 22 | 25 | 22 | 25 | — | — |
| Total available for sale securities | \$18,375 | \$18,412 | \$16,010 | \$15,995 | \$2,417 | 15% |
| <u>Held to Maturity Securities</u> | | | | | | |
| Mortgage-backed securities: | | | | | | |
| Federal agencies and U.S. government sponsored entities | \$3,947 | \$3,903 | \$2,940 | \$2,907 | \$996 | 34% |
| Other/non-agency | 1,510 | 1,492 | 1,375 | 1,350 | 142 | 11 |
| Total held to maturity securities | \$5,457 | \$5,395 | \$4,315 | \$4,257 | \$1,138 | 27% |
| Total available for sale and held to maturity securities | \$23,832 | \$23,807 | \$20,325 | \$20,252 | \$3,555 | 18% |

As of March 31, 2014, the fair value of the available for sale and held to maturity securities portfolios increased by \$3.6 billion, or 18%, to \$23.8 billion, compared to \$20.3 billion as of December 31, 2013. U.S. Government-guaranteed notes and government sponsored entity-issued mortgage-backed securities comprise the majority of the securities portfolio holdings. Reinvestments have been directed predominantly into fixed-rate mortgage-backed securities, and as of March 31, 2014, the portfolio had an average expected life of 4.75 years.

The investment portfolio includes higher quality, highly liquid investments reflecting our ongoing commitment to maintain appropriate contingent liquidity and pledging capacity. The portfolio composition has also been dominated by holdings backed by mortgages so that they can be pledged to the FHLBs. This has become increasingly important due to the enhanced liquidity requirements of the LCR.

CITIZENS FINANCIAL GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three months ended March 31, 2014, the securities portfolio income on the available for sale and held to maturity securities portfolios increased \$29 million, or 26%, to \$141 million compared to \$112 million for the three months ended March 31, 2013, and the yield on the portfolio was 2.51%. The portfolio yield decreased by 2 basis points, driven by faster prepayments in the mortgage-backed securities portfolio. For the three months ended March 31, 2014, mortgage-backed securities cash flows and sales totaled \$1.4 billion and mortgage-backed securities purchases and reinvestment of cash flows totaled \$4.8 billion.

Derivatives

Historically, we have used pay-fixed swaps to synthetically lengthen liabilities and offset duration in fixed-rate assets. Given the material prepayment of fixed-rate mortgages and home equity loans since 2008, these swaps were no longer needed and have been terminated or allowed to runoff, resulting in a reduction in the notional balances of these swaps to \$1.5 billion as of March 31, 2014.

We use receive-fixed swaps to minimize the exposure to variability in the interest cash flows on our floating rate assets. This is reflected in the interest rate swaps line in the table below. As of March 31, 2014, a notional amount of \$4 billion of receive-fixed swaps had been executed. The assets and liabilities recorded for derivatives designated as hedges reflect the market value of these hedge instruments.

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

The table below presents our derivative assets and liabilities. For additional information regarding our derivative instruments see Note 8, "Derivatives," in the consolidated financial statements.

| | March 31, 2014 | | | December 31, 2013 | | | Net Increase (Decrease) in Net Assets/Liabilities |
|--|--------------------------------|-------------------|------------------------|--------------------------------|-------------------|------------------------|---|
| | Notional Amount ⁽¹⁾ | Derivative Assets | Derivative Liabilities | Notional Amount ⁽¹⁾ | Derivative Assets | Derivative Liabilities | % |
| (dollars in millions) | | | | | | | |
| Derivatives designated as hedging instruments: | | | | | | | |
| Interest rate swaps | \$5,500 | \$22 | \$320 | \$5,500 | \$23 | \$412 | (23)% |
| Derivatives <u>not</u> designated as hedging instruments: | | | | | | | |
| Interest rate swaps | 29,808 | 628 | 533 | 29,355 | 654 | 558 | (1) |
| Foreign exchange contracts | 7,853 | 72 | 66 | 7,771 | 94 | 87 | (14) |
| Other contracts | \$599 | 5 | 10 | \$569 | 7 | 10 | 67 |
| Total derivatives <u>not</u> designated as hedging instruments | | 705 | 609 | | 755 | 655 | (4) |
| Gross derivative fair values | | 727 | 929 | | 778 | 1,067 | (30)% |
| Less: Gross amounts offset in the consolidated balance sheets ⁽²⁾ | | (101) | (101) | | (128) | (128) | |
| Total net derivative fair values presented in the consolidated balance sheets ⁽³⁾ | | \$626 | \$828 | | \$650 | \$939 | |

⁽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 tend to greatly overstate the true economic risk of these contracts.

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

⁽³⁾We also offset assets and liabilities associated with repurchase agreements on our consolidated balance sheets. See Note 2, "Securities," to our consolidated financial statements for further discussion.

Capital

As a bank holding company and a financial holding company, we are subject to regulation and supervision by the Federal Reserve Board. Our primary subsidiaries are our two insured depository institutions, CBNA, a national banking association whose primary federal regulator is the OCC, and CBPA, a Pennsylvania-chartered savings bank regulated by the Department of Banking of the Commonwealth of Pennsylvania and supervised by the FDIC as its primary federal regulator.

Under current Basel I regulation, the Federal Reserve Board requires us to maintain minimum levels with respect to our Tier 1 capital, total capital and leverage ratios. The minimum standards for the Tier 1 capital ratio (the ratio of our Tier 1 capital to total risk-weighted assets, both as defined by Federal Reserve Board regulation) and the total capital ratio (the ratio of our total

CITIZENS FINANCIAL GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

risk-based capital, which is the sum of our Tier 1 and Tier 2 capital, as defined by Federal Reserve Board regulation, to total risk-weighted assets) are 4.0% and 8.0%, respectively. The minimum Tier 1 leverage ratio (the ratio of a banking organization's Tier 1 capital to total adjusted quarterly average total assets, as defined for regulatory purposes) is 3.0% for bank holding companies that either have the highest supervisory rating or have implemented the Federal Reserve Board's risk-adjusted measure for market risk. The minimum Tier 1 leverage ratio for all other bank holding companies is 4.0%, unless a different minimum is specified by the Federal Reserve Board.

In July 2013, the U.S. bank regulatory agencies approved final regulatory capital rules that implement the Basel III capital framework and certain provisions of the Dodd-Frank Act. We will be required to comply with these rules beginning on January 1, 2015, with certain aspects of the rules phasing in through 2018. The final rules introduce a new CET1 ratio with a minimum of 4.5%; raise the minimum for the Tier 1 Risk-Based Capital ratio from 4.0% to 6.0%; maintain the minimum for the Total Risk-Based Capital ratio at 8.0%; and set a single minimum Tier 1 Leverage ratio of 4.0% for institutions, which are not Advanced Approaches banking organizations as defined by the U.S. agencies. Final rules raise the minima required to remain well-capitalized under the agencies' prompt corrective action framework and also require maintenance of a CCB of 2.5% above the Basel III minimum for each risk-based ratio. Maintaining a level above this CCB is necessary to ensure full flexibility with respect to capital distributions, including redemptions of qualifying regulatory capital, as well as payment of discretionary dividends and interest on such instruments. The rules also make changes to the definition of regulatory capital elements, under which we expect to take advantage of the option related to AOCI that will allow us to continue filtering from regulatory capital all unrealized gains and losses not related to cash flow hedges for items that are not fair-valued on the balance sheet. Lastly, the rules establish a new Standardized Approach that must be used by all banking institutions to calculate risk-weighted assets used in the denominator of all non-leverage ratios.

The table below demonstrates the strength of our regulatory capital ratios as of March 31, 2014. Actual Basel I ratios and pro forma Basel III ratios, which include estimated impacts of all final rule changes released in July 2013, remain well above current Basel I and future Basel III minima:

| Regulatory Ratios as of March 31, 2014 Basel I vs. Basel III Rules | | | | | | |
|---|---------------------------------|---------------------|--|---|--|--|
| Regulatory Ratio | Basel I Ratios and Requirements | | | Pro Forma Basel III Ratios and Requirements (including adoption of U.S. Standardized Approach Risk-Weighted Assets) | | |
| | Actual Basel I Ratio | Required Minimum | Well- Capitalized Minimum for Purposes of Prompt Corrective Action | Pro Forma Basel III Ratio | Required Minimum + Required Capital Conservation Buffer for Non-Leverage Ratios | Well- Capitalized Minimum for Purposes of Prompt Corrective Action |
| Tier 1 Capital to Risk Weighted Assets (Tier 1 capital ratio) | 13.4% | 4.0% | 6.0% | 13.1% | 8.5% | 8.0% |
| Total Capital to Risk Weighted Assets (Total capital ratio) | 16.0% | 8.0% | 10.0% | 15.7% | 10.5% | 10.0% |
| Tier 1 Capital to Average Total Assets (Leverage Ratio) | 11.4% | 3.0% | 5.0% | 11.4% | 4.0% | 5.0% |
| Common Equity Tier 1 Capital to Risk Weighted Assets (Tier 1 common equity ratio) | Not Applicable | Not Applicable | Not Applicable | 13.1% | 7.0% | 6.5% |

CITIZENS FINANCIAL GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management believes that the pro forma Basel III ratios presented above are meaningful because they are some of the measures that we, our regulators and investors use to assess capital adequacy. The pro forma Basel III ratios are non-GAAP measures prior to when the regulations implementing Basel III become applicable to us, subject to transitional arrangements, on January 1, 2015 and may not be comparable to similar non-GAAP measures used by other companies.

Our assessment of capital adequacy begins with our risk appetite and risk management framework, which provides for the identification, measurement and management of material risks. Required capital is determined for actual/forecasted risk portfolios using applicable regulatory capital methodologies, including estimated impacts of approved and proposed regulatory changes that will or may apply to future periods. Key analytical frameworks, which enable the comprehensive assessment of capital adequacy versus unexpected loss, supplement our base case forecast. These supplemental frameworks include Integrated Stress Testing, as well as an Internal Capital Adequacy Requirement that builds on internally assessed Economic Capital requirements. Our capital planning process is supported by a robust governance framework. This process includes: capital management policies and procedures, which 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.

Assessment of capital adequacy for us and for our banking subsidiaries feeds development of capital plans that are submitted to the Federal Reserve Board and other bank regulators. We prepare these plans in full compliance with the Capital Plan Rule and participate in the Federal Reserve Board's annual CCAR process. Both we and our banking subsidiaries also participate in semi-annual stress tests required by the Dodd-Frank Act. Within this regulatory framework, we may only execute capital actions in accordance with a capital plan that the Federal Reserve Board has reviewed and to which the Federal Reserve Board has not objected.

In March 2014, we paid \$25 million in common dividends, which was the final action executed under our 2013 Capital Plan. For the four consecutive quarters ended March 31, 2014 we paid regular common dividends of \$170 million, repaid \$290 million of trust preferred securities, and replaced \$1 billion of excess common equity with \$1 billion of Tier 2 subordinated debt via exchange common dividends. This last activity is part of an ongoing initiative that will better align our Tier 1 capital base with peer regional banks, while maintaining a solid total capital position.

In late March 2014, the Federal Reserve Board completed the review of our 2014 Capital Plan, which was submitted for the 2014 Comprehensive Capital Analysis and Review. The Federal Reserve Board objected to certain qualitative aspects of our capital plan but did not object to capital actions at the level executed under our previous capital plan.

As a result of the goodwill impairment recognized by CBNA in the second quarter of 2013, CBNA must request specific approval from the OCC before executing capital distributions. This requirement will be in place through the fourth quarter of 2015. As of March 31, 2014, the Company had liquid assets of approximately \$600 million compared to an annual interest burden on existing subordinated debt of approximately \$63 million on a non-consolidated basis.

Critical Accounting Estimates

Our consolidated financial statements 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 consolidated financial statements.

An accounting estimate requires assumptions and judgments about uncertain matters that could have a material effect on our 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. See "Management's Discussion and Analysis - Critical Accounting Estimates" and Note 1, "Significant Accounting Policies," in our 2013 consolidated financial statements for further discussion of our significant accounting policies.

ENTERPRISE RISK MANAGEMENT

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.

As a banking organization regulated under U.K. law, RBS Group exercises enterprise-wide management over all of its subsidiaries, including Citizens. Therefore, we must also manage our risks consistent with the maximum limit of risk acceptable to RBS Group. Pursuant to a cease and desist order entered into by RBS Group with the Federal Reserve and certain state banking supervisors in 2011 (the "Cease and Desist Order"), RBS Group was required to strengthen its U.S. corporate governance structure

CITIZENS FINANCIAL GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

and develop an enterprise-wide risk management program, among other requirements with respect to its U.S. operations, which include Citizens.

We maintain a governance structure that delineates the responsibilities for risk management activities, as well as governance and oversight of those activities, by management and the Board of Directors. Board members have access to executive management and are provided frequent and periodic management updates, including reports from Risk Management, Finance and Treasury, and RBS Group Internal Audit.

Managing risk is an essential component of our business. Risk identification and monitoring are key elements in overall risk management.

The following principal risks have been incorporated into our risk management program, consistent with RBS Group's enterprise-wide risk management program and the governance standards imposed by the Cease and Desist Order:

Credit Risk

Credit risk represents the potential for default or loss resulting from an obligor's or counterparty's failure to meet the terms of any contract with us or our subsidiaries, or failure otherwise to perform as agreed. Credit risk arises from all activities where success depends on counterparty, issuer, or borrower performance.

Credit Policy administers the Credit Approval Framework that controls the underwriting and approval of our new business. Risk Policy Committees govern all changes to the retail and commercial credit policies. The Credit Approval Framework vests credit authority in select individuals throughout our organization. Transactions must be approved by designated personnel and the level of approval escalates based on the size and complexity of the transaction. We are currently focused on streamlining and simplifying the Credit Policy and supporting procedures to improve efficiency without compromising asset quality and sound lending processes.

Credit Portfolio Management oversight resides with assigned retail and commercial credit officers who are focused on transactions and portfolio management capabilities. Concentration limits for asset classes and sectors are formally approved by the Risk Policy and Risk Concentration Committees and approved by the Chief Credit Officer. Credit officers are responsible for monitoring the performance of assigned portfolios, credit policy compliance and adherence to concentration limits. Credit officers partner with the line of business to conduct regular portfolio reviews to identify and remediate risks and to execute on risk mitigating portfolio management strategies, including decisions on sales of assets, participation levels, limit reviews on leveraged lending arrangements and watched asset reviews.

A recovery group of credit professionals is engaged in the restructuring, remediation and collection of stressed loan relationships.

Our Risk Architecture Center of Excellence centralizes all activities associated with the oversight of risk systems, data, analytics, and reporting. Risk Architecture manages a single, integrated roadmap of projects to enhance its risk and capital management capabilities, inclusive of key risk initiatives around the regulatory reform agenda. These include Basel III, economic capital enhancements, comprehensive capital analysis and review, stress testing and DFA compliance.

An independent model validation function delivers objective validation assessments for all models in the decision support framework.

Relationship managers are responsible for all aspects of the credit relationship including sales negotiations, profitability, underwriting, regulatory compliance, documentation, portfolio administration, and problem loan identification. Relationship managers seek to ensure that the proper probability of default and loss given default ratings are assigned to the credit at all times. Relationship management also entails oversight and liaison with other areas of Citizens whenever appropriate, particularly in deteriorating scenarios. Relationship management teams may be comprised of team leaders, relationship managers, portfolio management analysts, underwriters and lending analysts. Every member of the team plays a critical role and shares a significant level of responsibility; however, the relationship manager assigned to the credit ultimately is charged with the primary credit stewardship responsibilities and accountability.

The risk analysis and reporting function within Risk Architecture acts as an independent second line of defense by aggregating, reviewing and challenging the first line of defense and reporting portfolio performance into consolidated credit risk reports which inform the board, other executives and management of overall risk trends in the loan portfolios.

Interest Rate Risk

Interest rate risk is the risk to earnings or capital arising from movement of interest rates. It arises from differences in the maturity and/or re-pricing of assets and liabilities, including the impact of interest-rate-related options embedded in bank products. The primary objectives of interest rate risk management are to identify the nature and estimate the magnitude of interest rate risk

CITIZENS FINANCIAL GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

in the structural (non-trading) balance sheet, place limits on that risk reflecting risk tolerance, and then manage the risk within those limits.

All of our interest rate risk measures are within current limits. Our structural interest rate risk position is asset-sensitive. Net interest income would benefit from rising rates, as loan assets would generally re-price upward faster than customer deposits. Adverse exposure to declining rates is limited by the low starting level of rates. The primary drivers of this adverse exposure include prepayment risk for mortgage-related assets, pricing floors on retail deposits, and rollover risk for fixed-rate assets, all of which become magnified at low interest rate levels. Given the prolonged period of low interest rates, the cumulative impact of rollover risk grows.

Liquidity Risk

Liquidity risk is defined as the risk that we or any of our subsidiaries/affiliates are unable to meet their contractual or potential payment obligations in a timely manner. This risk can be broken down into asset liquidity risk and funding liquidity risk. Asset liquidity risk arises when changes in the market conditions make the liquidation of certain assets difficult and substantially reduces the liquidation value of such assets. Funding liquidity risk refers to the inability of us to honor our payment obligations due to difficulties raising funds from counterparties and/or depositors.

We consider the effective and prudent management of wholesale funding and liquidity to be fundamental to our health and strength. Liquidity risk is measured and managed within approved policy guidelines as determined by the Board of Directors, the Citizens Asset and Liability Management Committee and RBS Group Asset Liability Committee. The Wholesale Funding and Liquidity unit monitors various key liquidity and funding metrics for each bank and Citizens on stand-alone and consolidated bases daily. Net overnight position, free securities, internal liquidity, available FHLB borrowing capacity, and total asset liquidity are calculated on a daily basis and forecasted monthly over a one-year horizon. This forecast is intended to identify emerging balance sheet trends and risks, and inform funding decisions.

We calculate and monitor asset liquidity as a key indicator of contingent liquidity capacity. Asset liquidity, which remains at historically high levels, is comprised primarily of unencumbered securities and unused FHLB capacity. Precautionary excess cash balances are generally maintained at the FRB. As traditional sources of wholesale funding remain relatively limited, we continue to maintain minimal reliance on unsecured wholesale markets, with ample liquidity due to stable deposits, and with contingent liquidity provided by high quality loan and security assets.

Market Risk

Market risk is defined as the risk of loss resulting from changes in market prices as a result of changes in rates, credit and liquidity or general economic conditions. We have market risk exposure to over-the-counter derivatives (including interest rate risk management products and foreign exchange swaps/forwards), our mortgage pipeline (related to secondary marketing activities) and our AFS portfolio. The mortgage pipeline and AFS portfolio fall under the direct oversight of the Asset and Liability Management Committee. Over-the-counter derivatives are generally recognized as having low levels of market risk given we simultaneously enter into offsetting derivative agreements with our parent RBS. Residual market risk related to over-the-counter derivatives is confined primarily to spread/basis risk and is monitored daily using the RBS Group Market Risk's Value at Risk methodology which is based on historical simulation. Other risk measures that present risk in a complementary way to establish Value at Risk are also utilized to monitor the size and nature of the market risks we face. We enter into hedges with RBS as warranted to neutralize our residual market risk and maintain a low risk profile.

Operational Risk

This section provides an overview of Compliance and Operational Risk Management at the Company. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Compliance risk is defined as the conduct of our colleagues, either towards customers or within the markets in which we operate, that might damage us arising from a breach of regulatory rules/laws or of regulators' or customers' expectations of us.

Operational risk represents the possibility that inadequate or failed systems and internal controls or procedures, human error, fraud or external influences such as disasters, can cause losses. Our risk management framework is embedded in the business through the Three Lines of Defense Model which defines responsibilities and accountabilities.

The business units (including business areas and support functions) are the First Line of Defense and are accountable for owning and managing, within a defined risk appetite, the risks which exist in their respective business areas. These include performing and maintaining risk assessments to identify and assess the material risks that arise in their area of responsibility, complying with relevant RBS Group Policies, testing and certifying the adequacy and effectiveness of their controls on a regular basis, establishing and documenting operating procedures, establishing and owning a governance structure for identifying and managing risk, and for defining and approving an appropriate risk appetite.

CITIZENS FINANCIAL GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Second Line of Defense includes independent monitoring and control functions accountable for owning and developing the risk and control frameworks and tools which we use to discharge our responsibilities. Monitoring and control functions include the management and oversight of risk, financial management and valuation, and legal and regulatory compliance. The Second Line is appropriately independent from the business and is accountable for overseeing and challenging the First Line of Defense on the effective management of its risks. Second Line of Defense accountability includes communication, training and awareness, providing expert support and advice to us on risk management. This includes interpreting and complying with the risk policy standards and risk management framework, conducting suitable reviews to focus on ensuring First Line compliance with policies and responsibilities, providing relevant management information and escalating concerns where appropriate. The Citizens Executive Risk Committee actively considers the inherent, material risks of the business/organization. This committee analyzes the risk profile and seeks confirmation that the risks are being appropriately identified, assessed and mitigated to the desired level.

Citizens Internal Audit is the Third Line of Defense and provides independent assurance over our key risks, which includes an assessment of the entire control framework.

Compliance risk is the risk of material loss, liability, reputational damage, or sanctions arising from the failure to conduct business in compliance with all relevant laws, regulations, industry or ethical standards, or regulatory guidance or expectations where we do business. Legal risk arises from a defective transaction, claim or other event resulting in a liability or loss, failing to take appropriate measures to protect assets, change in law and breach of law or acceptable practice. We have established policy standards that seek to ensure we work within all relevant laws and regulations applicable in all jurisdictions where we do business.

Strategic Risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. Our internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes.

There is risk in the ability to deliver upon strategic initiatives in light of a slow economic recovery and a flat yield curve. However, actions have been taken to mitigate this risk by working to optimize loan pricing and maintain conservative underwriting. Moreover, we are growing the fee income business and the commercial loan portfolio to drive revenue while maintaining cost discipline. We are positioned for a rising rate environment, but at the same time seek alternative sources of revenue in this low rate environment. We will continue to runoff non-core loans and focus on organic growth as well as maintain strong capital ratios. To date, the revenue and expense impact of new regulations have been mitigated; however, as new rules are implemented, the costs of compliance will impact us and the entire industry.

Reputational Risk

Reputational risk is the potential for loss arising from negative public opinion. We manage our reputational risk through various policies and processes which are embedded throughout the organization. These processes are both proactive and reactive in nature and include communications and branding strategies, extensive compliance training and strong regulatory relations, liquidity and capital adequacy planning, operational process and systems monitoring, and robust incident management protocols to address issues as they arise.

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

We have reviewed the accompanying consolidated balance sheet of Citizens Financial Group, Inc. and its subsidiaries (the "Company") as of March 31, 2014, and the related consolidated statements of operations, other comprehensive income, changes in stockholders' equity and cash flows for the three-month periods ended March 31, 2014 and 2013. The interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Citizens Financial Group, Inc. and its subsidiaries as of December 31, 2013 and the related consolidated statement of operations, other comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 12, 2014 (except for notes 24, 25, 26, and 27, as to which the date is May 12, 2014) we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2013 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche LLP

May 30, 2014

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS

| <i>(in millions, except share data)</i> | March 31, 2014 (unaudited) | December 31, 2013 |
|---|----------------------------------|----------------------|
| ASSETS: | | |
| Cash and due from banks | \$2,852 | \$2,757 |
| Interest-bearing deposits in banks | 299 | 233 |
| Securities available for sale, at fair value | 18,412 | 15,995 |
| Securities held to maturity (estimated fair value of \$5,395 and \$4,257, respectively) | 5,457 | 4,315 |
| Other investment securities | 935 | 935 |
| Loans held for sale, at fair value | 131 | 176 |
| Other loans held for sale | 1,248 | 1,078 |
| Loans and leases | 87,083 | 85,859 |
| Less: Allowance for loan and lease losses | 1,259 | 1,221 |
| Net loans and leases | 85,824 | 84,638 |
| Derivative assets | 626 | 650 |
| Premises and equipment, net | 574 | 592 |
| Bank-owned life insurance | 1,350 | 1,339 |
| Goodwill | 6,876 | 6,876 |
| Due from broker | — | 446 |
| Other branch assets held for sale | 40 | 46 |
| Other assets | 2,268 | 2,078 |
| TOTAL ASSETS | \$126,892 | \$122,154 |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| LIABILITIES: | | |
| Deposits: | | |
| Noninterest-bearing | \$25,681 | \$24,931 |
| Interest-bearing | 61,781 | 61,972 |
| Total deposits | 87,462 | 86,903 |
| Deposits held for sale | 5,188 | 5,277 |
| Federal funds purchased and securities sold under agreements to repurchase | 6,080 | 4,791 |
| Other short-term borrowed funds | 4,950 | 2,251 |
| Derivative liabilities | 828 | 939 |
| Deferred taxes, net | 319 | 199 |
| Long-term borrowed funds | 1,403 | 1,405 |
| Other liabilities | 1,220 | 1,193 |
| TOTAL LIABILITIES | 107,450 | 102,958 |
| Contingencies (refer to Note 9) | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock: | | |
| \$1.00 par value, 30,000 shares authorized, no shares outstanding at March 31, 2014, and December 31, 2013 and liquidation value per share of \$100,000 | — | — |
| Common stock: | | |
| \$.01 par value, 5,000 shares authorized, 3,382 shares issued and outstanding at March 31, 2014 and December 31, 2013 | — | — |
| Additional paid-in capital | 18,609 | 18,609 |
| Retained earnings | 1,376 | 1,235 |
| Accumulated other comprehensive loss | (543) | (648) |
| TOTAL STOCKHOLDERS' EQUITY | 19,442 | 19,196 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$126,892 | \$122,154 |

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended March 31, | |
|---|------------------------------|--------------------|
| | 2014 | 2013 |
| <i>(in millions, except per share amounts)</i> | <i>(unaudited)</i> | <i>(unaudited)</i> |
| INTEREST INCOME: | | |
| Interest and fees on loans and leases | \$730 | \$759 |
| Interest and fees on loans held for sale | 1 | 4 |
| Interest and fees on other loans held for sale | 12 | — |
| Investment securities | 149 | 120 |
| Interest-bearing deposits in banks | 1 | 3 |
| Total interest income | 893 | 886 |
| INTEREST EXPENSE: | | |
| Deposits | 33 | 61 |
| Deposits held for sale | 2 | — |
| Federal funds purchased and securities sold under agreement to repurchase | 15 | 59 |
| Other short-term borrowed funds | 19 | 1 |
| Long-term borrowed funds | 16 | 5 |
| Total interest expense | 85 | 126 |
| Net interest income | 808 | 760 |
| Provision for credit losses | 121 | 90 |
| Net interest income after provision for credit losses | 687 | 670 |
| NONINTEREST INCOME: | | |
| Service charges and fees | 139 | 161 |
| Card fees | 56 | 54 |
| Trust and investment services fees | 39 | 34 |
| Foreign exchange and trade finance fees | 22 | 24 |
| Mortgage banking fees | 20 | 46 |
| Capital markets fees | 18 | 15 |
| Bank-owned life insurance income | 11 | 13 |
| Securities gains, net | 25 | 52 |
| Other-than-temporary impairment: | | |
| Total other-than-temporary impairment losses | (34) | (49) |
| Portions of loss recognized in other comprehensive income (before taxes) | 30 | 46 |
| Net impairment losses recognized in earnings | (4) | (3) |
| Other income | 32 | 37 |
| Total noninterest income | 358 | 433 |
| NONINTEREST EXPENSE: | | |
| Salaries and employee benefits | 405 | 435 |
| Outside services | 83 | 85 |
| Occupancy | 81 | 85 |
| Equipment expense | 64 | 68 |
| Amortization of software | 31 | 21 |
| Other operating expense | 146 | 127 |
| Total noninterest expense | 810 | 821 |
| Income before income tax expense | 235 | 282 |
| Income tax expense | 69 | 99 |
| NET INCOME | \$166 | \$183 |
| Weighted-average number of shares outstanding: | | |
| Basic | 3,382 | 3,382 |
| Diluted | 3,382 | 3,382 |
| Per common share information: | | |
| Basic earnings | \$49,087.34 | \$54,139.78 |
| Diluted earnings | 49,087.34 | 54,139.78 |
| Dividends paid | 7,392.08 | 11,827.32 |

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

CITIZENS FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

| <i>(in millions)</i> | Three Months Ended March 31, | |
|---|-------------------------------------|-----------------------------|
| | 2014 (unaudited) | 2013 (unaudited) |
| Net income | \$166 | \$183 |
| Other comprehensive income (loss): | | |
| Net unrealized derivative instrument gains (losses) arising during the period, net of income taxes of \$34 and \$6, respectively | 59 | 10 |
| Reclassification adjustment for net derivative (gains) losses included in net income, net of income taxes of \$4 and \$22, respectively | 7 | 39 |
| Net unrealized securities (losses) gains arising during the period, net of income taxes of \$41 and (\$32), respectively | 71 | (54) |
| Other than temporary impairment not recognized in earnings on securities, net of income taxes of (\$11) and (\$17), respectively | (19) | (29) |
| Reclassification of net securities gains to net income, net of income taxes of (\$7) and (\$18), respectively | (14) | (31) |
| Defined benefit pension plans: | | |
| Amortization of actuarial loss, net of taxes of \$1 and \$0, respectively | 1 | — |
| Total other comprehensive income (loss), net of income taxes | 105 | (65) |
| Total comprehensive income | \$271 | \$118 |

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

CITIZENS FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| <i>(in millions)</i> | Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|--|--------------------|--------------|-------------------------------|----------------------|--|----------|
| Balance at December 31, 2012 | \$— | \$— | \$18,595 | \$5,846 | (\$312) | \$24,129 |
| Dividend to parent | — | — | — | (40) | — | (40) |
| Total comprehensive income: | | | | | | |
| Net income | — | — | — | 183 | — | 183 |
| Other comprehensive loss | — | — | — | — | (65) | (65) |
| Total comprehensive income | | | | | | 118 |
| Balance at March 31, 2013 (UNAUDITED) | \$— | \$— | \$18,595 | \$5,989 | (\$377) | \$24,207 |
| Balance at December 31, 2013 | \$— | \$— | \$18,609 | \$1,235 | (\$648) | \$19,196 |
| Dividend to parent | — | — | — | (25) | — | (25) |
| Total comprehensive income: | | | | | | |
| Net income | — | — | — | 166 | — | 166 |
| Other comprehensive income | — | — | — | — | 105 | 105 |
| Total comprehensive income | | | | | | 271 |
| Balance at March 31, 2014 (UNAUDITED) | \$— | \$— | \$18,609 | \$1,376 | (\$543) | \$19,442 |

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three Months Ended March 31, | |
|--|------------------------------|---------------------|
| <i>(in millions)</i> | 2014 (unaudited) | 2013 (unaudited) |
| OPERATING ACTIVITIES | | |
| Net income | \$166 | \$183 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | 121 | 90 |
| Originations of mortgage loans held for sale | (307) | (1,297) |
| Proceeds from sales of mortgage loans held for sale | 352 | 1,393 |
| Amortization of terminated cash flow hedges | 12 | 20 |
| Depreciation, amortization and accretion | 96 | 103 |
| Recovery of mortgage servicing rights | (4) | (6) |
| Securities impairment | 4 | 3 |
| Deferred income taxes | 58 | — |
| Loss on disposal/impairment of premises and equipment | 1 | 2 |
| Gain on sales of: | | |
| Securities available for sale | (25) | (52) |
| Increase in other assets | 280 | 367 |
| Decrease in other liabilities | (54) | (84) |
| Net cash provided by operating activities | 700 | 722 |
| INVESTING ACTIVITIES | | |
| Investment securities: | | |
| Purchases of securities available for sale | (3,697) | (1,921) |
| Proceeds from maturities and paydowns of securities available for sale | 694 | 1,484 |
| Proceeds from sales of securities available for sale | 711 | 1,569 |
| Proceeds from sales of other investment securities | — | 70 |
| Purchases of securities held to maturity | (1,174) | — |
| Proceeds from maturities and paydowns of securities held to maturity | 40 | — |
| Net increase in interest-bearing deposits in banks | (66) | (1,902) |
| Net (decrease) increase in loans and leases | (1,486) | 1,328 |
| Net increase in bank-owned life insurance | (11) | (6) |
| Premises and equipment: | | |
| Purchases | (7) | (30) |
| Capitalization of software | (40) | (44) |
| Net cash (used in) provided by investing activities | (5,036) | 548 |
| FINANCING ACTIVITIES | | |
| Net increase (decrease) in deposits | 470 | (520) |
| Net increase in federal funds purchased and securities sold under agreements to repurchase | 1,289 | 108 |
| Net change in other short-term borrowed funds | 2,700 | (489) |
| Repayments of long-term borrowed funds | (3) | (3) |
| Dividends paid to parent | (25) | (40) |
| Net cash provided by (used in) financing activities | 4,431 | (944) |
| Increase in cash and cash equivalents | 95 | 326 |
| Cash and cash equivalents at beginning of period | 2,757 | 3,063 |
| Cash and cash equivalents at end of period | \$2,852 | \$3,389 |

The accompanying Notes to 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 consolidated financial statements, including the notes thereto of Citizens Financial Group, Inc. (formerly RBS Citizens Financial Group, Inc., effective April 16 2014), have been prepared in accordance with GAAP interim reporting requirements, and therefore, do not include all information and notes to the annual consolidated financial statements in conformity with GAAP. These interim consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's 2013 Consolidated Annual Report. The Company's principal business activity is banking, conducted through its subsidiaries Citizens bank, N.A. (formerly RBS Citizens, N.A., effective April 16, 2014) and Citizens Bank of Pennsylvania.

The unaudited 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.

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

New Accounting Pronouncements

In January 2014, the FASB issued Accounting Standards Update 2014-04, "*Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*." This amendment clarifies that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendment requires disclosure of (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. This amendment is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014 and is expected to have an immaterial impact on the Company's consolidated financial statements.

Also in January 2014, the FASB issued Accounting Standards Update No. 2014-01, "*Accounting for Investments in Qualified Affordable Housing Projects*." This amendment permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Qualified affordable housing project investments that are not accounted for using the proportional amortization method must be accounted for as an equity method or cost method investment. This amendment is effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014 and is expected to have an immaterial impact on the Company's consolidated financial statements.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2 - SECURITIES

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

| (in millions) | March 31, 2014 | | | | December 31, 2013 | | | |
|---|-----------------|------------------------|-------------------------|-----------------|-------------------|------------------------|-------------------------|-----------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| <u>Available for Sale Securities</u> | | | | | | | | |
| U.S. Treasury | \$15 | \$— | \$— | \$15 | \$15 | \$— | \$— | \$15 |
| State and political subdivisions | 11 | — | (1) | 10 | 11 | — | (1) | 10 |
| Mortgage-backed securities: | | | | | | | | |
| Federal agencies and U.S. government sponsored entities | 17,394 | 149 | (88) | 17,455 | 14,970 | 151 | (128) | 14,993 |
| Other/non-agency | 933 | 8 | (34) | 907 | 992 | 5 | (45) | 952 |
| Total mortgage-backed securities | 18,327 | 157 | (122) | 18,362 | 15,962 | 156 | (173) | 15,945 |
| Total debt securities | 18,353 | 157 | (123) | 18,387 | 15,988 | 156 | (174) | 15,970 |
| Marketable equity securities | 10 | 3 | — | 13 | 10 | 3 | — | 13 |
| Other equity securities | 12 | — | — | 12 | 12 | — | — | 12 |
| Total equity securities | 22 | 3 | — | 25 | 22 | 3 | — | 25 |
| Total available for sale securities | \$18,375 | \$160 | (\$123) | \$18,412 | \$16,010 | \$159 | (\$174) | \$15,995 |
| <u>Held to Maturity Securities</u> | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | |
| Federal agencies and U.S. government sponsored entities | \$3,947 | \$— | (\$44) | \$3,903 | \$2,940 | \$— | (\$33) | \$2,907 |
| Other/non-agency | 1,510 | — | (18) | 1,492 | 1,375 | — | (25) | 1,350 |
| Total held to maturity securities | \$5,457 | \$— | (\$62) | \$5,395 | \$4,315 | \$— | (\$58) | \$4,257 |
| <u>Other Investment Securities</u> | | | | | | | | |
| Federal Reserve Bank stock | \$462 | \$— | \$— | \$462 | \$462 | \$— | \$— | \$462 |
| Federal Home Loan Bank stock | 467 | — | — | 467 | 468 | — | — | 468 |
| Venture capital and other investments | 6 | — | — | 6 | 5 | — | — | 5 |
| Total other investment securities | \$935 | \$— | \$— | \$935 | \$935 | \$— | \$— | \$935 |

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Company reviewed its securities portfolio for other-than-temporary impairments. 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:

| March 31, 2014 | | | | | | | | | |
|---|---------------------|------------|-------------------------|---------------------|------------|-------------------------|------------------|------------|-------------------------|
| (dollars in millions) | Less than 12 Months | | | 12 Months or Longer | | | Total | | |
| | Number of Issues | Fair Value | Gross Unrealized Losses | Number of Issues | Fair Value | Gross Unrealized Losses | Number of Issues | Fair Value | Gross Unrealized Losses |
| State and political subdivisions | 1 | \$10 | (\$1) | — | \$— | \$— | 1 | \$10 | (\$1) |
| Mortgage-backed securities: | | | | | | | | | |
| Federal agencies and U.S. government sponsored entities | 222 | 11,662 | (128) | 15 | 50 | (4) | 237 | 11,712 | (132) |
| Other/non-agency | 20 | 1,618 | (22) | 17 | 430 | (30) | 37 | 2,048 | (52) |
| Total mortgage-backed securities | 242 | 13,280 | (150) | 32 | 480 | (34) | 274 | 13,760 | (184) |
| Total | 243 | \$13,290 | (\$151) | 32 | \$480 | (\$34) | 275 | \$13,770 | (\$185) |

| December 31, 2013 | | | | | | | | | |
|---|---------------------|------------|-------------------------|---------------------|------------|-------------------------|------------------|------------|-------------------------|
| (dollars in millions) | Less than 12 Months | | | 12 Months or Longer | | | Total | | |
| | Number of Issues | Fair Value | Gross Unrealized Losses | Number of Issues | Fair Value | Gross Unrealized Losses | Number of Issues | Fair Value | Gross Unrealized Losses |
| State and political subdivisions | 1 | \$10 | (\$1) | — | \$— | \$— | 1 | \$10 | (\$1) |
| Mortgage-backed securities: | | | | | | | | | |
| Federal agencies and U.S. government sponsored entities | 263 | 12,067 | (158) | 7 | 20 | (2) | 270 | 12,087 | (160) |
| Other/non-agency | 22 | 1,452 | (34) | 19 | 490 | (37) | 41 | 1,942 | (71) |
| Total mortgage-backed securities | 285 | 13,519 | (192) | 26 | 510 | (39) | 311 | 14,029 | (231) |
| Total | 286 | \$13,529 | (\$193) | 26 | \$510 | (\$39) | 312 | \$14,039 | (\$232) |

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.

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.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| (in millions) | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2014 | 2013 |
| Cumulative balance through January 1 | \$56 | \$55 |
| Credit impairments recognized in earnings on debt securities that have been previously impaired | 4 | 3 |
| Reductions due to increases in cash flow expectations on impaired securities | (1) | (1) |
| Cumulative balance at end of period | \$59 | \$57 |

Cumulative credit losses recognized in earnings for impaired AFS debt securities held as of March 31, 2014 and 2013 were \$59 million and \$57 million, respectively. There were no credit losses recognized in earnings for the Company's HTM portfolio as of March 31, 2014 and 2013. The Company recognized \$4 million and \$3 million of credit related other-than-temporary impairment losses in earnings for the three months ended March 31, 2014 and 2013, respectively, related to non-agency MBS in the AFS portfolio. No impaired debt securities were sold during March 31, 2014 or 2013. Reductions in credit losses due to increases in cash flow expectations were \$1 million for the three months ended March 31, 2014 and 2013, and are presented in investment securities interest income 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. As of March 31, 2014 and 2013, \$30 million and \$46 million, respectively, of pre-tax non-credit related losses were deferred in OCI.

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. Additionally, any subsequent increases in the valuation of impaired debt securities do not impact their recorded cost bases.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The amortized cost and fair value of debt securities at March 31, 2014 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 call or prepayment penalties.

| | Distribution of Maturities | | | | |
|---|----------------------------|--------------|---------------|-------------------|----------|
| (in millions) | 1 Year or Less | 1-5 Years | 5-10 Years | After 10 Years | Total |
| Amortized Cost: | | | | | |
| <u>Available for sale debt securities</u> | | | | | |
| U.S. Treasury | \$15 | \$— | \$— | \$— | \$15 |
| State and political subdivisions | — | — | — | 11 | 11 |
| Mortgage-backed securities: | | | | | |
| Federal agencies and U.S. government sponsored entities | — | 37 | 2,746 | 14,611 | 17,394 |
| Other/non-agency | — | 67 | 81 | 785 | 933 |
| Total available for sale debt securities | 15 | 104 | 2,827 | 15,407 | 18,353 |
| <u>Held to maturity debt securities</u> | | | | | |
| Mortgage-backed securities: | | | | | |
| Federal agencies and U.S. government sponsored entities | — | — | — | 3,947 | 3,947 |
| Other/non-agency | — | — | — | 1,510 | 1,510 |
| Total held to maturity debt securities | — | — | — | 5,457 | 5,457 |
| Total debt securities | \$15 | \$104 | \$2,827 | \$20,864 | \$23,810 |

Fair Value:

| | | | | | |
|---|-------------|--------------|----------------|-----------------|-----------------|
| <u>Available for sale debt securities</u> | | | | | |
| U.S. Treasury | \$15 | \$— | \$— | \$— | \$15 |
| State and political subdivisions | — | — | — | 10 | 10 |
| Mortgage-backed securities: | | | | | |
| Federal agencies and U.S. government sponsored entities | — | 39 | 2,749 | 14,667 | 17,455 |
| Other/non-agency | — | 69 | 83 | 755 | 907 |
| Total available for sale debt securities | 15 | 108 | 2,832 | 15,432 | 18,387 |
| <u>Held to maturity debt securities</u> | | | | | |
| Mortgage-backed securities: | | | | | |
| Federal agencies and U.S. government sponsored entities | — | — | — | 3,903 | 3,903 |
| Other/non-agency | — | — | — | 1,492 | 1,492 |
| Total held to maturity debt securities | — | — | — | 5,395 | 5,395 |
| Total debt securities | \$15 | \$108 | \$2,832 | \$20,827 | \$23,782 |

The Company recognized \$150 million and \$123 million of interest income from taxable investment securities in earnings for the three months ended March 31, 2014 and 2013, respectively. No interest income was recognized from non-taxable investment securities in earnings for the three months ended March 31, 2014 and 2013, respectively.

The Company recognized \$25 million and \$52 million of gains on sale of debt securities in earnings for the three months ended March 31, 2014 and 2013, respectively.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| (in millions) | March 31, 2014 | | December 31, 2013 | |
|---|----------------|------------|-------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Pledged against repurchase agreements | \$6,414 | \$6,432 | \$5,016 | \$4,998 |
| Pledged against Federal Home Loan Bank borrowed funds | 1 | 1 | 1 | 1 |
| Pledged against derivatives to qualify for fiduciary powers, and to secure public and other deposits as required by law | 2,763 | 2,776 | 2,818 | 2,853 |

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 (e.g., overnight) 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:

| (in millions) | March 31, 2014 | | | December 31, 2013 | | |
|---|----------------------------|-----------------------------------|-------------------------------------|----------------------------|-----------------------------------|-------------------------------------|
| | Gross Assets (Liabilities) | Gross Assets (Liabilities) Offset | Net Amounts of Assets (Liabilities) | Gross Assets (Liabilities) | Gross Assets (Liabilities) Offset | Net Amounts of Assets (Liabilities) |
| Reverse repurchase and similar arrangements | \$— | \$— | \$— | \$— | \$— | \$— |
| Repurchase and similar arrangements | (4,600) | — | (4,600) | (3,000) | — | (3,000) |

Note: The Company also offsets certain derivative assets and derivative liabilities on the Consolidated Balance Sheets. See Note 8, "Derivatives," for further information.

NOTE 3 - LOANS AND LEASES

A summary of the loans and leases portfolio follows:

| (in millions) | March 31, 2014 | December 31, 2013 |
|--|----------------|-------------------|
| Commercial | \$29,435 | \$28,667 |
| Commercial real estate | 6,902 | 6,948 |
| Leases | 3,738 | 3,780 |
| Total commercial | 40,075 | 39,395 |
| Residential, including originated home equity products | 29,761 | 29,694 |
| Home equity products serviced by others | 2,075 | 2,171 |
| Other secured retail | 11,216 | 10,700 |
| Unsecured retail | 3,956 | 3,899 |
| Total retail | 47,008 | 46,464 |
| Total loans and leases | \$87,083 | \$85,859 |

Loans held for sale totaled \$131 million and \$176 million at March 31, 2014 and December 31, 2013, respectively. Other loans held for sale primarily relate to the Company's agreement to sell its Chicago-area retail branches, small business relationships and select middle market relationships and totaled \$1.2 billion and \$1.1 billion at March 31, 2014 and December 31, 2013, respectively. See Note 10, "Divestitures and Branch Assets and Liabilities Held for Sale," for further details.

Mortgage loans serviced for others by the Company's subsidiaries are not included above, and amounted to \$18.6 billion and \$18.7 billion at March 31, 2014 and December 31, 2013, respectively.

Loans pledged as collateral for FHLB borrowed funds totaled \$19 billion at March 31, 2014 and December 31, 2013. This collateral consists primarily of residential mortgages and home equity loans. Loans pledged as collateral to support the

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

contingent ability to borrow at the FRB discount window, if necessary, totaled \$13.5 billion and \$13.9 billion at March 31, 2014 and December 31, 2013, respectively.

In March 2014, the Company purchased a portfolio of residential loans with an outstanding principal balance of \$483 million, a portfolio of auto loans with an outstanding principal balance of \$202 million and a portfolio of student loans with an outstanding principal balance of \$40 million. The Company also sold a portfolio of residential mortgage loans with outstanding principal balances of \$126 million at a gain of \$2 million in March 2014. The Company recognized MSRs of \$1 million related to this transaction. The Company had no external loan portfolio purchase or sale transactions during the three months ended March 31, 2013.

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

The ALLL is increased through a provision for credit losses that is charged to earnings, based on the Company's quarterly evaluation, and is reduced by net charge-offs and the ALLL associated with sold loans. See Note 1, "Significant Accounting Policies," of the 2013 Consolidated Annual Report for a detailed discussion of ALLL methodologies and estimation techniques.

During 2013, the Company modified the way that it establishes the ALLL. The ALLL is reviewed separately for commercial and retail loan portfolios, and the ALLL for each includes an adjustment for qualitative reserves that includes certain risks, factors and events that might not be measured in the statistical analysis. As a result of this change, the unallocated reserve was absorbed into the separately measured commercial and retail qualitative reserves.

Additionally, during December 2013, the Company revised and extended its incurred loss period for certain residential mortgages. This change reflects management's recognition that incurred but unrealized losses emerge differently during various points of an economic/business cycle. ILPs are not static and move over time based on several factors. As economies expand and contract, access to credit, jobs, and liquidity moves directionally with the economy. Conceptually, the concept is very intuitive: ILPs will be longer in stronger economic times, when borrowers have the financial ability to withstand adversity and the ILPs will be shorter in an adverse economic environment, when the borrower has less financial flexibility. Since the current economy has not been as strong as the 2002 – 2006 time period, it is the Company's belief that ILPs will not be as long, but rather directional to its history. Since overall the Company's reserves are deemed adequate, there was no need to increase the reserve but rather reallocate some of the general reserves to cover the \$96 million incurred loss period increase.

There were no other 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:

| (in millions) | Three Months Ended March 31, 2014 | | |
|--|-----------------------------------|--------|---------|
| | Commercial | Retail | Total |
| Allowance for loan and lease losses as of January 1, 2014 | \$498 | \$723 | \$1,221 |
| Charge-offs | (6) | (122) | (128) |
| Recoveries | 14 | 27 | 41 |
| Net recoveries (charge-offs) | 8 | (95) | (87) |
| Provision charged to income | 21 | 104 | 125 |
| Allowance for loan and lease losses as of March 31, 2014 | 527 | 732 | 1,259 |
| Reserve for unfunded lending commitments as of January 1, 2014 | 39 | — | 39 |
| Credit for unfunded lending commitments | (4) | — | (4) |
| Reserve for unfunded lending commitments as of March 31, 2014 | 35 | — | 35 |
| Total allowance for credit losses as of March 31, 2014 | \$562 | \$732 | \$1,294 |

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

| (in millions) | Three Months Ended March 31, 2013 | | | |
|--|-----------------------------------|--------|-------------|---------|
| | Commercial | Retail | Unallocated | Total |
| Allowance for loan and lease losses as of January 1, 2013 | \$509 | \$657 | \$89 | \$1,255 |
| Charge-offs | (17) | (169) | — | (186) |
| Recoveries | 32 | 29 | — | 61 |
| Net recoveries (charge-offs) | 15 | (140) | — | (125) |
| Provision charged to income | (39) | 120 | 8 | 89 |
| Allowance for loan and lease losses as of March 31, 2013 | 485 | 637 | 97 | 1,219 |
| Reserve for unfunded lending commitments as of January 1, 2013 | 40 | — | — | 40 |
| Credit for unfunded lending commitments | 1 | — | — | 1 |
| Reserve for unfunded lending commitments as of March 31, 2013 | 41 | — | — | 41 |
| Total allowance for credit losses as of March 31, 2013 | \$526 | \$637 | \$97 | \$1,260 |

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

| (in millions) | March 31, 2014 | | | December 31, 2013 | | |
|--------------------------|----------------|----------|----------|-------------------|----------|----------|
| | Commercial | Retail | Total | Commercial | Retail | Total |
| Individually evaluated | \$217 | \$1,212 | \$1,429 | \$239 | \$1,200 | \$1,439 |
| Formula-based evaluation | 39,858 | 45,796 | 85,654 | 39,156 | 45,264 | 84,420 |
| Total loans and leases | \$40,075 | \$47,008 | \$87,083 | \$39,395 | \$46,464 | \$85,859 |

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

| (in millions) | March 31, 2014 | | | December 31, 2013 | | |
|-----------------------------------|----------------|--------|---------|-------------------|--------|---------|
| | Commercial | Retail | Total | Commercial | Retail | Total |
| Individually evaluated | \$22 | \$116 | \$138 | \$23 | \$108 | \$131 |
| Formula-based evaluation | 540 | 616 | 1,156 | 514 | 615 | 1,129 |
| Total allowance for credit losses | \$562 | \$732 | \$1,294 | \$537 | \$723 | \$1,260 |

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.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| March 31, 2014 | | | | | |
|------------------------|-----------------|----------------------------|--------------------|-----------------|-----------------|
| (in millions) | Pass | Criticized | | | Total |
| | | Special Mention | Substandard | Doubtful | |
| Commercial | \$28,120 | \$724 | \$519 | \$72 | \$29,435 |
| Commercial real estate | 6,390 | 280 | 114 | 118 | 6,902 |
| Leases | 3,655 | 25 | 58 | — | 3,738 |
| Total | \$38,165 | \$1,029 | \$691 | \$190 | \$40,075 |

| December 31, 2013 | | | | | |
|--------------------------|-----------------|----------------------------|--------------------|-----------------|-----------------|
| (in millions) | Pass | Criticized | | | Total |
| | | Special Mention | Substandard | Doubtful | |
| Commercial | \$27,433 | \$588 | \$541 | \$105 | \$28,667 |
| Commercial real estate | 6,366 | 339 | 116 | 127 | 6,948 |
| Leases | 3,679 | 40 | 61 | — | 3,780 |
| Total | \$37,478 | \$967 | \$718 | \$232 | \$39,395 |

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

| March 31, 2014 | | | | | |
|--|-----------------|-------------------------------|--------------------------------|-------------------------------------|-----------------|
| (in millions) | Current | 1-29 Days Past Due | 30-89 Days Past Due | 90 Days or more Past Due | Total |
| Residential, including originated home equity products | \$28,112 | \$772 | \$214 | \$663 | \$29,761 |
| Home equity products serviced by others | 1,826 | 152 | 37 | 60 | 2,075 |
| Other secured retail | 10,649 | 501 | 53 | 13 | 11,216 |
| Unsecured retail | 3,697 | 139 | 68 | 52 | 3,956 |
| Total | \$44,284 | \$1,564 | \$372 | \$788 | \$47,008 |

| December 31, 2013 | | | | | |
|--|-----------------|-------------------------------|--------------------------------|-------------------------------------|-----------------|
| (in millions) | Current | 1-29 Days Past Due | 30-89 Days Past Due | 90 Days or more Past Due | Total |
| Residential, including originated home equity products | \$27,912 | \$861 | \$259 | \$662 | \$29,694 |
| Home equity products serviced by others | 1,901 | 167 | 43 | 60 | 2,171 |
| Other secured retail | 10,068 | 550 | 66 | 16 | 10,700 |
| Unsecured retail | 3,593 | 185 | 67 | 54 | 3,899 |
| Total | \$43,474 | \$1,763 | \$435 | \$792 | \$46,464 |

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Nonperforming Assets

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

| (in millions) | March 31, 2014 | | | December 31, 2013 | | |
|--|----------------|---|--------------------------------------|-------------------|---|--------------------------------------|
| | 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 | \$73 | \$— | \$73 | \$96 | \$— | \$96 |
| Commercial real estate | 144 | 11 | 155 | 169 | — | 169 |
| Leases | — | 2 | 2 | — | — | — |
| Total commercial | 217 | 13 | 230 | 265 | — | 265 |
| Residential, including originated home equity products | 973 | — | 973 | 981 | — | 981 |
| Home equity products serviced by others | 87 | — | 87 | 89 | — | 89 |
| Other secured retail | 23 | — | 23 | 26 | — | 26 |
| Unsecured retail | 21 | 29 | 50 | 22 | 33 | 55 |
| Total retail | 1,104 | 29 | 1,133 | 1,118 | 33 | 1,151 |
| Total | \$1,321 | \$42 | \$1,363 | \$1,383 | \$33 | \$1,416 |

A summary of other nonperforming assets is as follows:

| (in millions) | March 31, 2014 | December 31, 2013 |
|---|----------------|-------------------|
| Nonperforming assets, net of valuation allowance: | | |
| Commercial | \$4 | \$10 |
| Retail | 41 | 40 |
| Nonperforming assets, net of valuation allowance | \$45 | \$50 |

Nonperforming assets consists primarily of other real estate owned and is presented in other assets on the Consolidated Balance Sheets.

A summary of key performance indicators is as follows:

| | March 31, 2014 | December 31, 2013 |
|---|----------------|-------------------|
| Nonperforming commercial loans and leases as a percentage of total loans and leases | 0.27% | 0.31% |
| Nonperforming retail loans as a percentage of total loans and leases | 1.30 | 1.34 |
| Total nonperforming loans and leases as a percentage of total loans and leases | 1.57 | 1.65 |
| Nonperforming commercial assets as a percentage of total assets | 0.18 | 0.23 |
| Nonperforming retail assets as a percentage of total assets | 0.93 | 0.97 |
| Total nonperforming assets as a percentage of total assets | 1.11% | 1.20% |

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following is an analysis of the age of the past due amounts (accruing and nonaccruing):

| (in millions) | March 31, 2014 | | | December 31, 2013 | | |
|--|---------------------|--------------------------|----------------|---------------------|--------------------------|----------------|
| | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due |
| Commercial | \$37 | \$73 | \$110 | \$61 | \$96 | \$157 |
| Commercial real estate | 50 | 155 | 205 | 34 | 169 | 203 |
| Leases | 5 | 2 | 7 | 24 | — | 24 |
| Total commercial | 92 | 230 | 322 | 119 | 265 | 384 |
| Residential, including originated home equity products | 214 | 663 | 877 | 259 | 662 | 921 |
| Home equity products serviced by others | 37 | 60 | 97 | 43 | 60 | 103 |
| Other secured retail | 53 | 13 | 66 | 66 | 16 | 82 |
| Unsecured retail | 68 | 52 | 120 | 67 | 54 | 121 |
| Total retail | 372 | 788 | 1,160 | 435 | 792 | 1,227 |
| Total | \$464 | \$1,018 | \$1,482 | \$554 | \$1,057 | \$1,611 |

Impaired loans include (1) nonaccruing larger balance commercial loans (greater than \$3 million carrying value) and (2) commercial and retail TDRs. The following is a summary of impaired loan information by class:

| (in millions) | March 31, 2014 | | | | |
|--|---|-----------------------------|--|----------------------------|---|
| | Impaired Loans With a Related Allowance | Allowance on Impaired Loans | Impaired Loans Without a Related Allowance | Unpaid Contractual Balance | Total Recorded Investment in Impaired Loans |
| Commercial | \$80 | \$13 | \$42 | \$168 | \$122 |
| Commercial real estate | 65 | 9 | 30 | 216 | 95 |
| Total commercial | 145 | 22 | 72 | 384 | 217 |
| Residential, including originated home equity products | 363 | 57 | 503 | 1,106 | 866 |
| Home equity products serviced by others | 90 | 14 | 23 | 127 | 113 |
| Other secured retail | 22 | 4 | 11 | 40 | 33 |
| Unsecured retail | 200 | 41 | — | 200 | 200 |
| Total retail | 675 | 116 | 537 | 1,473 | 1,212 |
| Total | \$820 | \$138 | \$609 | \$1,857 | \$1,429 |

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

| December 31, 2013 | | | | | |
|--|---|--------------------------------|---|----------------------------------|---|
| (in millions) | Impaired Loans With a Related Allowance | Allowance on Impaired Loans | Impaired Loans Without a Related Allowance | Unpaid Contractual Balance | Total Recorded Investment in Impaired Loans |
| Commercial | \$86 | \$15 | \$33 | \$214 | \$119 |
| Commercial real estate | 76 | 8 | 44 | 221 | 120 |
| Total commercial | 162 | 23 | 77 | 435 | 239 |
| Residential, including originated home equity products | 355 | 59 | 497 | 1,081 | 852 |
| Home equity products serviced by others | 91 | 11 | 21 | 125 | 112 |
| Other secured retail | 23 | 3 | 12 | 43 | 35 |
| Unsecured retail | 201 | 35 | — | 201 | 201 |
| Total retail | 670 | 108 | 530 | 1,450 | 1,200 |
| Total | \$832 | \$131 | \$607 | \$1,885 | \$1,439 |

Additional information on impaired loans is as follows:

| Three Months Ended March 31, | | | | |
|--|-------------------------------|-----------------------------------|-------------------------------|-----------------------------------|
| (in millions) | 2014 | | 2013 | |
| | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment |
| Commercial | \$— | \$102 | \$1 | \$188 |
| Commercial real estate | 1 | 117 | — | 230 |
| Total commercial | 1 | 219 | 1 | 418 |
| Residential, including originated home equity products | 6 | 849 | 2 | 706 |
| Home equity products serviced by others | 1 | 112 | 1 | 135 |
| Other secured retail | — | 32 | — | 40 |
| Unsecured retail | 3 | 197 | 3 | 190 |
| Total retail | 10 | 1,190 | 6 | 1,071 |
| Total | \$11 | \$1,409 | \$7 | \$1,489 |

The retail loan activity for the three months ended March 31, 2013 presented in the table above was restated to more accurately reflect the retail TDR activity for the period.

Troubled Debt Restructurings

A loan modification is identified as a TDR when the Company or a bankruptcy court grants the borrower a concession the Company would not otherwise make in response to the borrower's financial difficulties. TDRs typically result from the Company's loss mitigation efforts and are undertaken in order to improve the likelihood of recovery and continuity of the relationship. Citizen's loan modifications are handled on a case-by-case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectibility and meet the borrower's financial needs. Concessions granted in TDRs for all classes of loans may include lowering the interest rate, forgiving a portion of principal, extending the loan term, lowering scheduled payments for a specified period of time, principal forbearance, or capitalizing past due amounts. A rate increase can be a concession if the increased rate is lower than a market rate for debt with risk similar to that of the restructured loan. TDRs for commercial loans and leases may also involve creating a multiple note structure, accepting non-cash assets, accepting an equity interest, or receiving a performance-based fee. In some cases a TDR may involve multiple concessions. The financial effects of TDRs for all loan classes may include lower income (either due to a lower interest rate or a delay in the timing of cash flows), larger loan loss provisions, and accelerated charge-offs if the modification renders the loan collateral-dependent. In some cases interest income throughout the term of the loan may increase if, for example, the loan is extended or the interest rate is increased as a result of the restructuring.

Because TDRs are impaired loans, the Company measures impairment by comparing the present value of expected future cash flows, or, when appropriate, collateral value, to the loan's recorded investment. Any excess of recorded investment over the present value of expected future cash flows or collateral value is recognized by creating a valuation allowance or increasing an

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

existing valuation allowance. Any portion of the loan's recorded investment the Company does not expect to collect as a result of the modification is charged off at the time of modification.

Commercial TDRs were \$151 million and \$167 million on March 31, 2014 and December 31, 2013, respectively. Retail TDRs totaled \$1.2 billion on March 31, 2014 and December 31, 2013. Commitments to lend additional funds to debtors owing receivables which were TDRs were \$44 million and \$52 million on March 31, 2014 and December 31, 2013, respectively.

The following table summarizes how loans were modified during the three months ended March 31, 2014, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances include loans that became TDRs during 2014, and were paid off in full, charged off, or sold prior to March 31, 2014.

| (dollars in millions) | Primary Modification Types | | | | | |
|--|--|--|---|-----------------------------------|--|---|
| | Interest Rate Reduction ⁽¹⁾ | | | Maturity Extension ⁽²⁾ | | |
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial | 7 | \$1 | \$1 | 13 | \$1 | \$1 |
| Commercial real estate | 1 | — | — | — | — | — |
| Total commercial | 8 | 1 | 1 | 13 | 1 | 1 |
| Residential, including originated home equity products | 74 | 8 | 8 | 140 | 9 | 8 |
| Home equity products serviced by others | 16 | 1 | 1 | — | — | — |
| Other secured retail | 24 | — | — | — | — | — |
| Unsecured retail | 577 | 3 | 3 | — | — | — |
| Total retail | 691 | 12 | 12 | 140 | 9 | 8 |
| Total | 699 | \$13 | \$13 | 153 | \$10 | \$9 |

| (dollars in millions) | Primary Modification Types | | | | |
|--|----------------------------|--|---|--|---|
| | Other ⁽³⁾ | | | | |
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Net Change to ALLL Resulting from Modification | Charge-offs Resulting from Modification |
| Commercial | 1 | \$— | \$— | (\$1) | \$— |
| Commercial real estate | — | — | — | — | — |
| Total commercial | 1 | — | — | (1) | — |
| Residential, including originated home equity products | 423 | 35 | 33 | (1) | 2 |
| Home equity products serviced by others | 59 | 3 | 2 | — | — |
| Other secured retail | 154 | 2 | 2 | — | 1 |
| Unsecured retail | 457 | 8 | 8 | (1) | — |
| Total retail | 1,093 | 48 | 45 | (2) | 3 |
| Total | 1,094 | \$48 | \$45 | (\$3) | \$3 |

⁽¹⁾ Includes modifications that consist of multiple concessions, one of which is an interest rate reduction.

⁽²⁾ Includes modifications that consist of multiple concessions, one of which is a maturity extension (unless one of the other concessions was an interest rate reduction).

⁽³⁾ Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forbearance, capitalizing arrearages, and principal forgiveness. Also included are the following: deferrals, trial modifications, certain bankruptcies, loans in forbearance and prepayment plans. Modifications can include the deferral of accrued interest resulting in post modification balances being higher than pre-modification.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table summarizes how loans were modified during the three months ended March 31, 2013, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances include loans that became TDRs during 2013, and were paid off in full, charged off, or sold prior to March 31, 2013.

| (dollars in millions) | Primary Modification Types | | | | | |
|--|--|--|---|-----------------------------------|--|---|
| | Interest Rate Reduction ⁽¹⁾ | | | Maturity Extension ⁽²⁾ | | |
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial | 37 | \$2 | \$2 | 56 | \$3 | \$3 |
| Commercial real estate | — | — | — | 1 | — | — |
| Total commercial | 37 | 2 | 2 | 57 | 3 | 3 |
| Residential, including originated home equity products | 127 | 13 | 14 | 52 | 5 | 5 |
| Home equity products serviced by others | 13 | 1 | 1 | 1 | — | — |
| Other secured retail | 163 | 1 | 2 | 1 | — | — |
| Unsecured retail | 816 | 4 | 4 | — | — | — |
| Total retail | 1,119 | 19 | 21 | 54 | 5 | 5 |
| Total | 1,156 | \$21 | \$23 | 111 | \$8 | \$8 |

| (dollars in millions) | Primary Modification Types | | | | |
|--|----------------------------|--|---|--|---|
| | Other ⁽³⁾ | | | | |
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Net Change to ALLL Resulting from Modification | Charge-offs Resulting from Modification |
| Commercial | 1 | \$— | \$— | \$— | \$— |
| Commercial real estate | — | — | — | (1) | — |
| Total commercial | 1 | — | — | (1) | — |
| Residential, including originated home equity products | 741 | 61 | 54 | — | 7 |
| Home equity products serviced by others | 60 | 3 | 2 | — | 1 |
| Other secured retail | 606 | 5 | 4 | — | 1 |
| Unsecured retail | 832 | 15 | 15 | — | — |
| Total retail | 2,239 | 84 | 75 | — | 9 |
| Total | 2,240 | \$84 | \$75 | (\$1) | \$9 |

⁽¹⁾ Includes modifications that consist of multiple concessions, one of which is an interest rate reduction.

⁽²⁾ Includes modifications that consist of multiple concessions, one of which is a maturity extension (unless one of the other concessions was an interest rate reduction).

⁽³⁾ Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forbearance, capitalizing arrearages, and principal forgiveness. Also included are the following: deferrals, trial modifications, certain bankruptcies, loans in forbearance and prepayment plans. Modifications can include the deferral of accrued interest resulting in post modification balances being higher than pre-modification.

Certain amounts in the table above for the three months ended March 31, 2013 have been restated to accurately reflect retail TDR activity in previously reported amounts. The impact was to reduce the total pre-modification outstanding recorded investment by \$70 million and the total post-modification outstanding recorded investment by \$72 million.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The table below summarizes TDRs that defaulted during the three months ended March 31, 2014 and 2013 within 12 months of their modification date. For purposes of this table, a payment default is defined as being past due 90 days or more under the modified terms. Amounts represent the loan's recorded investment at the time of payment default. Loan data in this table includes loans meeting the criteria that were paid off in full, charged off, or sold prior to March 31, 2014 and 2013. If a TDR of any loan type becomes 90 days past due after being modified, the loan is written down to the fair value of collateral less cost to sell. The amount written off is charged to the ALLL.

| (dollars in millions) | Three Months Ended March 31, | | | |
|--|------------------------------|-------------------|---------------------|-------------------|
| | 2014 | | 2013 | |
| | Number of Contracts | Balance Defaulted | Number of Contracts | Balance Defaulted |
| Commercial | 11 | \$1 | — | \$— |
| Commercial real estate | 1 | 1 | — | — |
| Total commercial | 12 | 2 | — | — |
| Residential, including originated home equity products | 214 | 14 | 696 | 55 |
| Home equity products serviced by others | 25 | — | 101 | 3 |
| Other secured retail | 38 | — | 63 | — |
| Unsecured retail | 263 | 3 | 205 | 3 |
| Total retail | 540 | 17 | 1,065 | 61 |
| Total | 552 | \$19 | 1,065 | \$61 |

Certain amounts in the table above for the three months ended March 31, 2013 have been restated to accurately reflect TDR balances from previously reported amounts. The impact was to reduce the total TDR default balance from the \$131 million previously reported to \$61 million.

Concentrations of Credit Risk

Most of the Company's business activity is with customers located in the New England, Mid-Atlantic and Mid-West regions. Generally, loans are collateralized by assets including real estate, inventory, accounts receivable, other personal property and investment securities. As of March 31, 2014 and December 31, 2013, the Company had a significant amount of loans collateralized by residential and commercial real estate. There are no significant concentrations to particular industries within the commercial loan portfolio. Exposure to credit losses arising from lending transactions may fluctuate with fair values of collateral supporting loans, which fail to perform according to contractual agreements. The Company's policy is to collateralize loans to the extent necessary; however, unsecured loans are also granted on the basis of the financial strength of the applicant and the facts surrounding the transaction.

Certain loan products, including residential mortgages, home equity loans and lines of credit, and credit cards, have contractual features that may increase credit exposure to the Company in the event of an increase in interest rates or a decline in housing values. These products include loans that exceed 90% of the value of the underlying collateral (high LTV loans), interest-only and negative amortization residential mortgages, and loans with low introductory rates. Certain loans have more than one of these characteristics.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table presents balances of loans with these characteristics:

| (in millions) | March 31, 2014 | | | | | December 31, 2013 | | | | |
|-------------------------------------|-----------------------|---------------------------------------|---|--------------|---------|-----------------------|---------------------------------------|---|--------------|---------|
| | Residential Mortgages | Home Equity Loans and Lines of Credit | Home Equity Products Serviced by Others | Credit Cards | Total | Residential Mortgages | Home Equity Loans and Lines of Credit | Home Equity Products Serviced by Others | Credit Cards | Total |
| High loan-to-value | \$998 | \$2,636 | \$1,505 | \$— | \$5,139 | \$1,054 | \$2,798 | \$1,581 | \$— | \$5,433 |
| Interest only/negative amortization | 879 | — | — | — | 879 | 882 | — | — | — | 882 |
| Low introductory rate | — | — | — | 116 | 116 | — | — | — | 119 | 119 |
| Multiple characteristics and other | 86 | — | — | — | 86 | 96 | — | — | — | 96 |
| Total | \$1,963 | \$2,636 | \$1,505 | \$116 | \$6,220 | \$2,032 | \$2,798 | \$1,581 | \$119 | \$6,530 |

NOTE 5 - MORTGAGE BANKING

In its mortgage banking business, the Company sells residential mortgage loans to government-sponsored entities and other parties, who may issue securities backed by pools of such loans. The Company retains no beneficial interests in these sales, but may retain the servicing rights of the loans sold. The Company is obligated to subsequently repurchase a loan if the purchaser discovers a standard representation or warranty violation such as noncompliance with eligibility requirements, customer fraud, or servicing violations. This primarily occurs during a loan file review.

The Company received \$352 million and \$1.4 billion of proceeds from the sale of residential mortgages in the three months ended March 31, 2014 and 2013, respectively and recognized gains on such sales of \$8 million and \$26 million in the three months then ended, respectively. Pursuant to the standard representations and warranties obligations discussed in the preceding paragraph, the Company repurchased mortgage loans totaling \$10 million and \$21 million for the three months ended March 31, 2014 and 2013, respectively.

Mortgage servicing fees, a component of mortgage banking income, were \$16 million and \$17 million for the three months ended March 31, 2014 and 2013, respectively. The Company recorded a recovery of \$4 million compared to a recovery of \$6 million for its MSR's for the three months ended March 31, 2014 and 2013, respectively.

Changes related to MSR's were as follows:

| (in millions) | Three Months Ended March 31, | |
|--|------------------------------|-------|
| | 2014 | 2013 |
| MSR's: | | |
| Balance as of January 1 | \$208 | \$215 |
| Amount capitalized | 4 | 14 |
| Amortization | (11) | (15) |
| Carrying amount before valuation allowance | 201 | 214 |
| Valuation allowance for servicing assets: | | |
| Balance as of January 1 | 23 | 70 |
| Valuation recovery | (4) | (6) |
| Balance at end of period | 19 | 64 |
| Net carrying value of MSR's | \$182 | \$150 |

MSR's are presented in other assets on the Consolidated Balance Sheets.

The fair value of MSR's is estimated using a valuation model that calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions. The valuation model uses a static discounted cash flow methodology incorporating current market interest rates. A static model does not attempt to forecast or predict the future direction of interest rates; rather it estimates the amount and timing of future servicing cash flows using current market interest

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

rates. The current mortgage interest rate influences the expected prepayment rate and therefore, the length of the cash flows associated with the servicing asset, while the discount rate determines the present value of those cash flows. Expected mortgage loan prepayment assumptions are obtained using the QRM Multi Component prepayment model. The Company periodically obtains third party valuations of its MSRs to assess the reasonableness of the fair value calculated by the valuation model.

The key economic assumptions used to estimate the value of MSRs are presented in the following table:

| (dollars in millions) | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2014 | 2013 |
| Fair value | \$193 | \$152 |
| Weighted average life (in years) | 5.2 | 3.9 |
| Weighted average constant prepayment rate | 13.6% | 19.6% |
| Weighted average discount rate | 10.3% | 10.6% |

The key economic assumptions used in estimating the fair value of MSRs capitalized during the period were as follows:

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2014 | 2013 |
| Weighted average life (in years) | 5.2 | 5.6 |
| Weighted average constant prepayment rate | 12.1% | 11.9% |
| Weighted average discount rate | 10.4% | 10.4% |

The sensitivity analysis below as of March 31, 2014 and 2013, presents the impact to current fair value of an immediate 50 basis points and 100 basis points adverse change in the key economic assumptions and presents the decline in fair value that would occur if the adverse change were realized. These sensitivities are hypothetical. The effect of a variation in a particular assumption on the fair value of the mortgage servicing rights is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, changes in interest rates, which drive changes in prepayment speeds, could result in changes in the discount rates), which might amplify or counteract the sensitivities. The primary risk inherent in the Company's MSRs is an increase in prepayments of the underlying mortgage loans serviced, which is dependent upon market movements of interest rates.

| (in millions) | Three Months Ended March 31, | |
|--|-------------------------------------|-------------|
| | 2014 | 2013 |
| Prepayment rate: | | |
| Decline in fair value from 50 basis points adverse change in interest rates | \$9 | \$12 |
| Decline in fair value from 100 basis points adverse change in interest rates | \$18 | \$21 |
| Weighted average discount rate: | | |
| Decline in fair value from 50 basis points adverse change | \$3 | \$2 |
| Decline in fair value from 100 basis points adverse change | \$6 | \$4 |

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 6 - EMPLOYEE BENEFITS

The Company maintains a non-contributory pension plan (the “Plan” or “qualified plan”) that was closed to new hires and re-hires effective January 1, 2009 and frozen to all participants effective December 31, 2012. Benefits under the Plan are based on employees' years of service and highest 5-year average eligible compensation. The Plan is funded on a current basis, in compliance with the requirements of the ERISA. The Company also provides an unfunded, non-qualified supplemental retirement plan (the “non-qualified plan”), which was closed and frozen consistent with the qualified plan.

The following table presents the components of net periodic (income) cost for the qualified and non-qualified plans:

| (in millions) | Three Months Ended March 31, | | | | | |
|------------------------------------|------------------------------|-------|--------------------|------|-------|-------|
| | Qualified Plan | | Non-Qualified Plan | | Total | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Service cost | \$1 | \$1 | \$— | \$— | \$1 | \$1 |
| Interest cost | 11 | 10 | 1 | 1 | 12 | 11 |
| Expected return on plan assets | (17) | (17) | — | — | (17) | (17) |
| Amortization of actuarial loss | 2 | 3 | — | — | 2 | 3 |
| Net periodic pension (income) cost | (\$3) | (\$3) | \$1 | \$1 | (\$2) | (\$2) |

NOTE 7 - INCOME TAXES

Income Tax Provision

The provision for income taxes was \$69 million and \$99 million for the three months ended March 31, 2014 and 2013, respectively. The provision represented an effective tax rate of 29% and 35% for the three months ended March 31, 2014 and 2013, respectively. For the three months ended March 31, 2014, the effective tax rate compared favorably to the statutory rate of 35% primarily as a result of tax credits and the permanent benefit of tax-exempt income. For the three months ended March 31, 2013, the effective tax rate represented the equivalent of the statutory federal income tax rate of 35%.

Deferred Tax Liability

At March 31, 2014, the Company reported a net deferred tax liability of \$319 million, compared to a \$199 million liability as of December 31, 2013. The increase in the net deferred tax liability is primarily attributable to the utilization of net operating loss and tax credit carryforwards, in addition to a decrease in the unrealized loss reported on securities available for sale, derivative instruments, and hedging activities.

NOTE 8 - DERIVATIVES

In the normal course of business, the Company enters into a variety of derivative transactions in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates and foreign currency exchange rates. The Company does not use derivatives for speculative purposes.

The Company's derivative instruments are recognized on the Consolidated Balance Sheets at fair value. Information regarding the valuation methodology and inputs used to estimate the fair value of the Company's derivative instruments is described in Note 11, "Fair Value Measurements."

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table identifies derivative instruments included on the Consolidated Balance Sheets in derivative assets and derivative liabilities:

| (in millions) | March 31, 2014 | | | December 31, 2013 | | |
|--|------------------------------|-------------------|------------------------|------------------------------|-------------------|------------------------|
| | Notional Amount ¹ | Derivative assets | Derivative liabilities | Notional Amount ¹ | Derivative assets | Derivative liabilities |
| Derivatives designated as hedging instruments: | | | | | | |
| Interest rate swaps | \$5,500 | \$22 | \$319 | \$5,500 | \$23 | \$412 |
| Derivatives <u>not</u> designated as hedging instruments: | | | | | | |
| Interest rate swaps | 29,808 | 628 | 534 | 29,355 | 654 | 558 |
| Foreign exchange contracts | 7,853 | 72 | 66 | 7,771 | 94 | 87 |
| Other contracts | 599 | 5 | 10 | 569 | 7 | 10 |
| Total derivatives <u>not</u> designated as hedging instruments | | 705 | 610 | | 755 | 655 |
| Gross derivative fair values | | \$727 | \$929 | | \$778 | \$1,067 |
| Less: Gross amounts offset in the Consolidated Balance Sheets ² | | (101) | (101) | | (128) | (128) |
| Total net derivative fair values presented in the Consolidated Balance Sheets ³ | | \$626 | \$828 | | \$650 | \$939 |

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

²Amounts represent the impact of legally enforceable master netting agreements that allow the Company to settle positive and negative positions.

³The Company also offsets assets and liabilities associated with repurchase agreements on the Consolidated Balance Sheets. See Note 2, "Securities," for further information.

The Company's derivative transactions are internally divided into three sub-groups: institutional, customer and residential loan.

Institutional derivatives

The institutional derivatives portfolio primarily consists of interest rate swap agreements that are used to hedge the interest rate risk associated with the Company's investment securities, loans and financing liabilities (i.e., borrowed funds, deposits, etc.). The goal of the Company's interest rate hedging activities is to manage interest rate sensitivity so that movements in interest rates do not significantly adversely affect net interest income.

The Company enters into certain interest rate swap agreements to hedge the risk associated with floating rate loans. By entering into pay-floating/receive-fixed interest rate swaps, the Company was able to minimize the variability in the cash flows of these assets due to changes in interest rates. The Company has outstanding interest rate swap agreements designed to hedge a portion of the Company's borrowed funds and deposits. By entering into a pay-fixed/receive-floating interest rate swap, a portion of these liabilities has been effectively converted to a fixed rate liability for the term of the interest rate swap agreement.

Customer derivatives

The customer derivatives portfolio consists of interest rate swap agreements and option contracts that are transacted to meet the financing needs of the Company's customers. Offsetting swap and cap agreements are simultaneously transacted to effectively eliminate the Company's market risk associated with the customer derivative products. The customer derivatives portfolio also includes foreign exchange contracts that are entered into on behalf of customers for the purpose of hedging exposure related to cash orders and loans and deposits denominated in foreign currency. The primary risks associated with these transactions arise from exposure to changes in foreign currency exchange rates and the ability of the counterparties to meet the terms of the contract. To manage this market risk, the Company simultaneously enters into offsetting foreign exchange contracts.

Residential loan derivatives

The Company enters into residential loan commitments that allow residential mortgage customers to lock in the interest rate on a residential mortgage while the loan undergoes the underwriting process. The Company also uses forward sales contracts to protect the value of residential mortgage loans and loan commitments that are being underwritten for future sale to investors in the secondary market.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Company has certain derivative transactions that are designated as hedging instruments described as follows:

Derivatives designated as hedging instruments

The majority of the Company's institutional hedging portfolio qualifies for hedge accounting. This includes interest rate swaps that are designated in highly effective cash flow hedging relationships. The Company formally documents at inception all hedging relationships, as well as risk management objectives and strategies for undertaking various accounting hedges. Additionally, the Company uses dollar offset or regression analysis at the hedge's inception, and at least quarterly thereafter to assess whether the derivatives are expected to be, or have been, highly effective in offsetting changes in the hedged item's expected cash flows. The Company discontinues hedge accounting when it is determined that a derivative is not expected to be or has ceased to be effective as a hedge, and then reflects changes in fair value in earnings after termination of the hedge relationship.

Cash flow hedges

The Company has outstanding interest rate swap agreements designed to hedge a portion of the Company's floating rate assets and financing liabilities (including its borrowed funds and deposits). All of these swaps have been deemed as highly effective cash flow hedges. The effective portion of the hedging gains and losses associated with these hedges are recorded in OCI; the ineffective portion of the hedging gains and losses is recorded in earnings (other income). Hedging gains and losses on derivative contracts reclassified from OCI to current period earnings are included in the line item in the accompanying consolidated statements of operations in which the hedged item is recorded, and in the same period that the hedged item affects earnings. During the next 12 months, approximately \$46 million of net loss (pre-tax) on derivative instruments included in OCI is expected to be reclassified to net interest expense in the Consolidated Statements of Operations.

Hedging gains and losses associated with the Company's cash flow hedges are immediately reclassified from OCI to current period earnings (other income) if it becomes probable that the hedged forecasted transactions will not occur by the originally specified time period.

The following table summarizes certain information related to the Company's cash flow hedges:

| The Effect of Cash Flow Hedges on Net Income and Stockholders' Equity | | |
|--|-------------------------------------|-------------|
| (in millions) | Three Months Ended March 31, | |
| | 2014 | 2013 |
| Effective portion of (loss) gain recognized in OCI ¹ | (\$92) | \$16 |
| Amounts reclassified from OCI to interest income ² | 18 | (5) |
| Amounts reclassified from OCI to interest expense ² | (29) | (54) |
| Amounts reclassified from OCI to net gains ³ | — | (2) |

¹The cumulative effective gains and losses on the Company's cash flow hedging activities are included on the AOCI line item on the Consolidated Balance Sheets.

²This amount includes both (a) the amortization of effective gains and losses associated with the Company's terminated cash flow hedges and (b) the current reporting period's interest settlements realized on the Company's active cash flow hedges. Both (a) and (b) were previously included on the accumulated other comprehensive loss line item on the Consolidated Balance Sheets and were subsequently recorded as adjustments to the interest expense of the underlying hedged item.

³This amount represents hedging gains and losses that have been immediately reclassified from accumulated other comprehensive loss based on the probability that the hedged forecasted transactions would not occur by the originally specified time period. This amount is reflected in the other income line item on the Consolidated Statements of Operations.

Economic Hedges

The Company's customer derivatives are recorded on the Consolidated Balance Sheets at fair value. These include interest rate and foreign exchange derivative contracts that are transacted to meet the hedging and financing needs of the Company's customers. Mark-to-market adjustments to the fair value of customer related interest rate contracts are included in other income in the accompanying Consolidated Statements of Operations. Mark-to-market adjustments to the fair value of foreign exchange contracts relating to foreign currency loans are included in interest and fees on loans and leases in the accompanying Consolidated Statements of Operations, while all other foreign currency contract fair value changes are included in foreign exchange and trade finance fees. In both cases, the mark-to-market gains and losses associated with the customer derivatives are mitigated by the mark-to-market gains and losses on the offsetting interest rate and foreign exchange derivative contracts transacted.

The Company's residential loan derivatives (including residential loan commitments and forward sales contracts) are recorded on the Consolidated Balance Sheets at fair value. Mark-to-market adjustments to the fair value of residential loan commitments and forward sale contracts are included in noninterest income under mortgage banking fees.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table summarizes certain information related to the Company's economic hedges:

| The Effect of Customer Derivatives and Economic Hedges on Net Income | | |
|--|-------------------------------------|-------------|
| (in millions) | Three Months Ended March 31, | |
| | 2014 | 2013 |
| <u>Customer derivative contracts</u> | | |
| Customer interest rate contracts ¹ | \$61 | (\$8) |
| Customer foreign exchange contracts ¹ | 4 | (23) |
| Residential loan commitments ³ | 3 | (12) |
| <u>Economic hedges</u> | | |
| Offsetting derivatives transactions to hedge interest rate risk on customer interest rate contracts ¹ | (53) | 24 |
| Offsetting derivatives transactions to hedge foreign exchange risk on customer foreign exchange contracts ² | (6) | 23 |
| Forward sale contracts ³ | (1) | — |
| Total | \$8 | \$4 |

¹Reported in other income on the Consolidated Statements of Operations.

²Reported in foreign exchange and trade finance fees on the Consolidated Statements of Operations.

³Reported in mortgage banking fees on the Consolidated Statements of Operations.

NOTE 9 - CONTINGENCIES

The Company operates in a legal and regulatory environment that exposes Citizens to potentially significant risks. In addition to the matters described below, in the normal course of business, we are named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our activities as a banking institution, including with respect to allegations of unfair and/or deceptive practices and mis-selling of certain products. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages.

In part as a result of the extensive regulation, supervision, and examination of our business described elsewhere in this document, the Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business certain of which may result in adverse judgments, settlements, fines, penalties, public or private censure, increased costs, required remediation, restriction on business activities, or other impact on the Company.

The Company contests liability and the amount of damages as appropriate in each pending matter. Where available information indicates that it is probable a liability has been incurred at the date of the consolidated financial statements and the loss can reasonably be estimated, the Company accrues the estimated loss as a charge to operations.

In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. The Company cannot predict with certainty if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages. Numerous issues may need to be resolved before liability can be reasonably estimated, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages and by addressing novel or unsettled legal issues relevant to the proceedings in question.

Set out below are descriptions of significant legal matters involving the Company. Based on information currently available, the advice of legal and other counsel, and established reserves, management believes that the aggregate liabilities, if any, arising from these proceedings will not have a materially adverse effect on the Company's business, financial condition and results of operations.

Consumer Products

The activities of the Company's bank subsidiaries are subject to extensive laws and regulations concerning unfair or deceptive acts or practices in connection with customer products. Certain of the bank subsidiaries' practices with respect to overdraft protection and other consumer products have not met applicable standards. The bank subsidiaries have implemented and are continuing to implement changes to bring their practices in conformity with applicable laws and regulations. In April 2013, the

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

bank subsidiaries consented to the issuance of orders by the OCC and the FDIC (the Consent Orders). In the Consent Orders (which are publicly available and will remain in effect until terminated by the regulators), the bank subsidiaries neither admitted nor denied the regulators' findings that they had engaged in deceptive marketing and implementation of the bank's overdraft protection program, checking rewards programs, and stop-payment process for pre-authorized recurring electronic fund transfers. Under the Consent Orders, the bank subsidiaries paid a total of \$10 million in civil monetary penalties and are required to develop plans to provide restitution to affected customers. The amount of restitution is anticipated to be approximately \$8 million, and that amount is fully covered by an existing reserve. The Consent Orders also require the bank subsidiaries to cease and desist any operations in violation of Section 5 of the Federal Trade Commission Act, and to submit to the regulators periodic written progress reports regarding compliance with the Consent Orders. In addition, Citizens Bank, N.A. (formerly RBS Citizens, N.A.) agreed to take certain remedial actions to improve its compliance risk management systems and to create a comprehensive action plan designed to achieve compliance with the Consent Order. Restitution plans have been prepared and submitted for approval and Citizens Bank, N.A. has submitted for approval, and is in the process of implementing, its action plan for compliance with the Consent Order, as well as updated policies, procedures, and programs related to its compliance risk management systems.

The Company's bank subsidiaries have also identified issues regarding, among other things, certain identity theft and debt cancellation products, certain overdraft fees, the bank subsidiaries' policies and practices with respect to identifying and correcting errors in customer deposits, and the charging of cost-based credit card late payment fees. The bank subsidiaries have paid restitution, or expect to pay restitution, to certain affected customers in connection with certain of these practices. In addition, the bank subsidiaries could face formal administrative enforcement actions from their federal supervisory agencies, including the assessment of civil monetary penalties and restitution, relating to the past practices and policies identified above and other consumer products, and they could face potential civil litigation. The Company does not expect that the aggregate of amounts paid in connection with these matters will have a material adverse effect on the Company's business, financial condition and results of operations.

Fair Labor Standards Act Litigation

The Company has been named in several purported class actions brought under the FLSA and equivalent state statutes alleging that certain categories of branch employees were denied overtime for hours worked. These suits are brought by current and former branch employees alleging that either: (1) they are/were in Assistant Branch Manager positions and were improperly classified as exempt under the FLSA thereby denying them pay for all hours worked, including overtime pay; or (2) they are/were properly classified as non-exempt tellers, bankers or the like but were told not to record all of their hours, had hours they entered deleted by their managers and/or were otherwise denied pay for hours worked, including overtime pay. These cases cover the Company's entire footprint, and they have been settled in principle, subject to court approval. The settlement amount (\$12 million) is fully covered by an existing reserve. Separately, the Company was named in two lawsuits brought by current and former mortgage loan officers and home loan advisors alleging that they were improperly classified as exempt under the FLSA and corresponding state laws and therefore denied pay for all hours worked, including overtime pay. These cases have been settled, and final court approval of the settlements was granted on January 29, 2014. The combined settlement amount of these two cases (\$3 million) is fully covered by existing reserves.

Telephone Consumer Protection Act Litigation

The Company is a defendant in a purported class action complaint filed in December 2013 in the United States District Court for the Southern District of California pursuant to the Telephone Consumer Protection Act. The named plaintiff purports to represent a "national class" of customers who allegedly received automated calls to their cell phones from the bank or its agents, without customer consent, in violation of the Telephone Consumer Protection Act. The Company is vigorously defending this matter.

LIBOR Litigation

The Company is a defendant in lawsuits in which allegations have been made that its parent company, RBS Group, manipulated U.S. dollar LIBOR to the detriment of our customers. The lawsuits include a purported class action on behalf of borrowers of the Company whose interest rate was tied to U.S. dollar LIBOR. The plaintiffs in these cases assert various theories of liability, including fraud, negligent misrepresentation, breach of contract, and unjust enrichment. The Company is vigorously defending these matters.

Foreclosure-Related Expenses

In May 2013, the civil division of the U.S. Attorney's Office for the Southern District of New York served a subpoena pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 seeking information regarding home mortgage foreclosure expenses submitted for reimbursement to the United States Department of Housing and Urban Development, FNMA, or FHLMC. The Company is cooperating with the investigation.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Mortgage Repurchase Demands

The Company is an originator and servicer of residential mortgages and sells such mortgage loans in the secondary market and to government-sponsored entities. In the context of such sales, the Company makes certain representations and warranties regarding the characteristics of the underlying loans and, as a result, may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of those representations and warranties. Between the start of January 2009 and the end of March 31, 2014, the Company has received approximately \$139 million in repurchase demands and \$97 million in indemnification payment requests in respect of loans originated, for the most part, since 2003. Of those claims presented, \$74 million was paid to repurchase residential mortgage loans, and \$32 million was incurred for indemnification costs to make investors whole. The Company repurchased mortgage loans totaling \$10 million and \$21 million for the three months ended March 31, 2014 and 2013, respectively. The Company incurred indemnification costs of \$6 million and \$3 million for the three months ended March 31, 2014 and 2013, respectively. The Company cannot estimate what the future level of repurchase demands will be or the Company's ultimate exposure, and cannot give any assurance that the historical experience will continue in the future. It is possible that the volume of repurchase demands will increase. In addition to the above, the Company has since December 2013 been responding to subpoenas issued by the Office of the Inspector General for the Federal Housing Finance Agency seeking information about loans sold to FNMA and the FHLMC from 2003 through 2011.

NOTE 10 - DIVESTITURES AND BRANCH ASSETS AND LIABILITIES HELD FOR SALE

In January 2014, the Company reached an agreement to sell its Chicago-area retail branches, small business relationships and select middle market relationships. As of March 31, 2014, the sale included 103 branches, approximately \$5.2 billion in local deposits and \$1.0 billion of locally originated loans as well as related branch premises. For the three months ended March 31, 2014, the corresponding interest and fees on these loans was \$11 million and interest expense on deposits was \$2 million. This transaction is anticipated to close in mid-2014, subject to satisfaction of customary closing conditions. As a result of this transaction, the related assets and liabilities are classified as held for sale. See Note 17, "Divestitures and Branch Assets and Liabilities Held for Sale," in the 2013 Consolidated Annual Report for further details.

NOTE 11 - FAIR VALUE MEASUREMENTS

As discussed in Note 1, "Significant Accounting Policies," in the 2013 Consolidated Annual Report, the Company measures or monitors many of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for assets and liabilities for which fair value is the required or elected measurement basis of accounting. Additionally, fair value is used on a nonrecurring basis to evaluate assets for impairment or for disclosure purposes. Nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets. The Company also applies the fair value measurement guidance to determine amounts reported for certain disclosures in this note for assets and liabilities not required to be reported at fair value in the financial statements.

Fair Value Option, Residential Mortgage Loans Held for Sale

The Company elected to account for residential mortgage loans held for sale at fair value. Applying fair value accounting to the residential mortgage loans held for sale better aligns the reported results of the economic changes in the value of these loans and their related hedge instruments.

The fair value of residential loans held for sale is derived from observable mortgage security prices and includes adjustments for loan servicing value, agency guarantee fees, and other loan level attributes which are mostly observable in the marketplace. Credit risk does not significantly impact the valuation since loans are sold shortly after origination. Therefore, the Company classifies the residential mortgage loans held for sale in Level 2 of the fair value hierarchy.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table summarizes the difference between the aggregate fair value and the aggregate unpaid principal balance for residential mortgage loans held for sale measured at fair value:

| (in millions) | March 31, 2014 | | | December 31, 2013 | | |
|---|----------------------|----------------------------|--|----------------------|----------------------------|--|
| | Aggregate Fair Value | Aggregate Unpaid Principal | Aggregate Fair Value Less Aggregate Unpaid Principal | Aggregate Fair Value | Aggregate Unpaid Principal | Aggregate Fair Value Less Aggregate Unpaid Principal |
| Residential mortgage loans held for sale, at fair value | \$131 | \$128 | \$3 | \$176 | \$173 | \$3 |

The loans accounted for under the fair value option are initially measured at fair value when the financial asset is recognized. Subsequent changes in fair value are recognized in current earnings. The Company recognized \$1 million, and (\$14) million in mortgage banking noninterest income for the three months ended March 31, 2014, and 2013, respectively. Interest income on residential mortgage loans held for sale is calculated based on the contractual interest rate of the loan and is recorded in interest income.

Additional information regarding the company's significant accounting policies for determining fair value is provided in Note 1, "Significant Accounting Policies," in the 2013 Consolidated Annual Report.

Recurring Fair Value Measurements

The Company utilizes a variety of valuation techniques to measure its assets and liabilities at fair value. Following is a description of valuation methodologies used for significant assets and liabilities carried on the balance sheet at fair value on a recurring basis:

Securities AFS: The fair value of securities classified as AFS is based upon quoted prices, if available. Where observable quoted prices are available in an active market, securities are classified as Level 1 in the fair value hierarchy. Classes of instruments that are valued using this market approach include debt securities issued by the U.S. Treasury. If quoted market prices are not available, the fair value for the security is estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. These instruments are classified as Level 2 because they currently trade in active markets and the inputs to the valuations are observable. The pricing models used to value securities generally begin with market prices (or rates) for similar instruments and make adjustments based on the unique characteristics of the instrument being valued. These adjustments reflect assumptions made regarding the sensitivity of each security's value to changes in interest rates and prepayment speeds. Classes of instruments that are valued using this market approach include residential and commercial CMOs, specified pool mortgage "pass-through" securities and other debt securities issued by U.S. government-sponsored entities and state and political subdivisions.

A significant majority of the Company's Level 1 and 2 securities are priced using an external pricing service. The Company verifies the accuracy of the pricing provided by its primary outside pricing service on a quarterly basis. This process involves using a secondary external vendor to provide valuations for the Company's securities portfolio for comparison purposes. Any securities with discrepancies beyond a certain threshold are researched and, if necessary, valued by an independent outside broker.

In certain cases where there is limited activity or less transparency around inputs to the valuation model, securities are classified as Level 3.

Residential loans held for sale: See the Fair Value Option discussion above.

Derivatives: The majority of the Company's derivatives portfolio is comprised of "plain vanilla" interest rate swaps, which are traded in over-the-counter markets where quoted market prices are not readily available. For these interest rate derivatives, fair value is determined utilizing models that use primarily market observable inputs, such as swap rates and yield curves. The pricing models used to value interest rate swaps calculate the sum of each instrument's fixed and variable cash flows, which are then discounted using an appropriate yield curve (i.e., LIBOR or OIS curve) to arrive at the fair value of each swap. The pricing models do not contain a high level of subjectivity as the methodologies used do not require significant judgment. The Company also considers certain adjustments to the modeled price which market participants would make when pricing each instrument, including a credit valuation adjustment that reflects the credit quality of the swap counterparty. The Company incorporates the effect of exposure to a particular counterparty's credit by netting its

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

derivative contracts with the collateral available and calculating a credit valuation adjustment on the basis of the net position with the counterparty where permitted. The determination of this adjustment requires judgment on behalf of Company management; however, the total amount of this portfolio-level adjustment is not material to the total fair value of the interest rate swaps in their entirety. Therefore, interest rate swaps are classified as Level 2 in the valuation hierarchy.

The Company's other derivatives include foreign exchange contracts. Fair value of foreign exchange derivatives uses the mid-point of daily quoted currency spot prices. A valuation model estimates fair value based on the quoted spot rates together with interest rate yield curves and forward currency rates. Since all of these inputs are observable in the market, foreign exchange derivatives are classified as Level 2 in the fair value hierarchy.

Venture capital investments: The Company values its venture capital private equity fund investments based on its capital invested in each fund, which is adjusted by management each quarter, if necessary, to arrive at its estimate of fair value. Adjustments for a fund's underlying investments may be based upon comparisons to public companies, industry benchmarks, current financing round pricing, earnings multiples of comparable companies, current operating performance and future expectations, or third party valuations. Since the inputs to the valuation are difficult to independently corroborate in the marketplace, and involve a significant degree of management judgment, venture capital investments are classified as Level 3 in the fair value hierarchy.

The following table presents assets and liabilities measured at fair value, including gross derivative assets and liabilities on a recurring basis at March 31, 2014:

| (in millions) | Total | Level 1 | Level 2 | Level 3 |
|----------------------------------|-----------------|-------------|-----------------|------------|
| Securities available for sale: | | | | |
| Mortgage-backed securities | \$18,362 | \$— | \$18,362 | \$— |
| State and political subdivisions | 10 | — | 10 | — |
| Equity securities | 25 | 8 | 17 | — |
| U.S. Treasury | 15 | 15 | — | — |
| Residential loans held for sale | 131 | — | 131 | — |
| Derivative assets: | | | | |
| Interest rate swaps | 650 | — | 650 | — |
| Foreign exchange contracts | 72 | — | 72 | — |
| Other contracts | 5 | — | 5 | — |
| Venture capital investments | 6 | — | — | 6 |
| Total assets | \$19,276 | \$23 | \$19,247 | \$6 |
| Derivative liabilities: | | | | |
| Interest rate swaps | \$853 | \$— | \$853 | \$— |
| Foreign exchange contracts | 66 | — | 66 | — |
| Other contracts | 10 | — | 10 | — |
| Total liabilities | \$929 | \$— | \$929 | \$— |

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table presents assets and liabilities measured at fair value including gross derivative assets and liabilities on a recurring basis at December 31, 2013:

| (in millions) | Total | Level 1 | Level 2 | Level 3 |
|----------------------------------|----------|---------|----------|---------|
| Securities available for sale: | | | | |
| Mortgage-backed securities | \$15,945 | \$— | \$15,945 | \$— |
| State and political subdivisions | 10 | — | 10 | — |
| Equity securities | 25 | 8 | 17 | — |
| U.S. Treasury | 15 | 15 | — | — |
| Residential loans held for sale | 176 | — | 176 | — |
| Derivative assets: | | | | |
| Interest rate swaps | 677 | — | 677 | — |
| Foreign exchange contracts | 94 | — | 94 | — |
| Other contracts | 7 | — | 7 | — |
| Venture capital investments | 5 | — | — | 5 |
| Total assets | \$16,954 | \$23 | \$16,926 | \$5 |
| Derivative liabilities: | | | | |
| Interest rate swaps | \$970 | \$— | \$970 | \$— |
| Foreign exchange contracts | 87 | — | 87 | — |
| Other contracts | 10 | — | 10 | — |
| Total liabilities | \$1,067 | \$— | \$1,067 | \$— |

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

| (in millions) | Three Months Ended March 31, | |
|--|------------------------------|------|
| | 2014 | 2013 |
| Balance as of January 1, | \$5 | \$6 |
| Purchases, issuances, sales and settlements: | | |
| Sales | — | (3) |
| Settlements | — | 3 |
| Other net gains | 1 | — |
| Balance as of period end | \$6 | \$6 |
| Net unrealized gain (loss) included in net income for the period relating to assets held at period end | \$— | \$— |

There were no transfers among Levels 1, 2 or 3 during the three months ended March 31, 2014 and 2013.

Nonrecurring Fair Value Measurements

The following valuation techniques are utilized to measure significant assets for which the Company utilizes fair value on a nonrecurring basis:

Impaired Loans: The carrying amount of collateral-dependent impaired loans is compared to the appraised value of the collateral less costs to dispose and is classified as Level 2. Any excess of carrying amount over the appraised value is charged to the ALLL.

MSRs: MSRs do not trade in an active market with readily observable prices. MSRs are classified as Level 3 since the valuation methodology utilizes significant unobservable inputs. At March 31, 2014 the fair value is calculated using the discounted cash flow model, the model which uses assumptions, including weighted average life of 5.2 years (range of 1.7 - 7 years), weighted average constant prepayment rate of 13.6% (range of 10.1% - 45.8%) and weighted average discount rate of 10.3% (range of 9.6% - 12.6%). At December 31, 2013 the fair value is calculated using the discounted cash flow model, the model which uses assumptions, including weighted average life of 5.4 years (range of 1.8- 7.4 years), weighted average constant prepayment rate of 13% (range of 9.4% - 41.5%) and weighted average discount rate of 10.8%

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(range of 10.2% - 13.1%). Refer to Note 1, "Significant Accounting Policies," and Note 9, "Mortgage Banking," in the 2013 Consolidated Annual Report for more information.

Foreclosed assets: Foreclosed assets consist primarily of residential properties. Foreclosed assets are carried at the lower of carrying value or fair value less costs to dispose. Fair value is based upon independent market prices or appraised values of the collateral and is classified as Level 2.

Goodwill: Goodwill is valued using unobservable inputs and is classified as Level 3. Fair value is calculated using the present value of estimated future earnings (discounted cash flow method). The lines of business, with oversight from the Accounting group, are responsible for routinely, at least quarterly, assessing whether impairment indicators are present.

The Company monitored events and circumstances during the first quarter of 2014 and did not observe any factors that would more likely than not reduce the fair value of one or more reporting units below its respective carrying value. Accordingly, goodwill was not tested for impairment during the first quarter of 2014. For additional information on the Company's goodwill impairment testing and the most recent goodwill impairment test, see Note 1 "Significant Accounting Policies", Note 8 "Goodwill" and Note 19 "Fair Value Measurement included in the 2013 Consolidated Annual Report.

The following table presents gains (losses) on assets and liabilities measured at fair value on a nonrecurring basis and recorded in earnings:

| (in millions) | Three Months Ended March 31, | |
|--|------------------------------|--------|
| | 2014 | 2013 |
| Impaired collateral-dependent loans ¹ | (\$75) | (\$56) |
| MSRs ² | 4 | 6 |
| Foreclosed assets ³ | (1) | 1 |

The following tables present assets and liabilities measured at fair value on a nonrecurring basis:

| (in millions) | March 31, 2014 | | | |
|--|----------------|---------|---------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Impaired collateral-dependent loans ¹ | \$60 | \$— | \$60 | \$— |
| MSRs ² | 182 | — | — | 182 |
| Foreclosed assets ³ | 42 | — | 42 | — |

| (in millions) | December 31, 2013 | | | |
|--|-------------------|---------|---------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Impaired collateral-dependent loans ¹ | \$74 | \$— | \$74 | \$— |
| MSRs ² | 185 | — | — | 185 |
| Foreclosed assets ³ | 49 | — | 49 | — |
| Goodwill ⁴ | 6,876 | — | — | 6,876 |

¹In the first three months of 2014, impaired loans for which collection is dependent on the loan's collateral in the amount of \$138 million were written down to \$60 million, resulting in an impairment charge of \$75 million, which was charged to the ALLL. In the year ended 2013, impaired loans for which collection is dependent on the loan's collateral in the amount of \$161 million were written down to their fair value of \$74 million, resulting in an impairment charge of \$83 million, which was charged to the ALLL.

²In the first three months of 2014, MSRs totaling \$208 million were evaluated for impairment and written down to \$182 million, resulting in an impairment recapture (charge) of \$4 million and a total cumulative valuation allowance of \$19 million. In the year ended 2013, MSRs totaling \$215 million were evaluated for impairment and written down to \$185 million, resulting in an impairment (charge) of \$47 million and a total cumulative valuation allowance of \$23 million.

³In the first three months of 2014, foreclosed real estate accounted for at the lower of cost or fair value less costs to sell was written down to fair value of \$42 million, resulting in impairment (recovery) charges of \$1 million. In the year ended 2013, foreclosed real estate accounted for at the lower of cost or fair value less costs to sell was written down to fair value of \$49 million, resulting in impairment charges of \$4 million.

⁴In the year ended 2013, Goodwill totaling \$11.3 billion was written down to its implied fair value of \$6.9 billion, resulting in an impairment charge of \$4.4 billion. Fair value of \$6.9 billion was valued as of June 30, 2013.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Disclosures about Fair Value of Financial Instruments

Following is a description of valuation methodologies used to estimate the fair value of financial instruments for disclosure purposes (these instruments are not recorded in the financial statements at fair value):

Loans and leases: For loans and leases not recorded at fair value on a recurring basis that are not accounted for as collateral-dependent impaired loans, fair value is estimated by using one of two methods: a discounted cash flow method or a securitization method. The discounted cash flow method involves discounting the expected future cash flows using current rates which a market participant would likely use to value similar pools of loans. Inputs used in this method include observable information such as contractual cash flows (net of servicing cost) and unobservable information such as estimated prepayment speeds, credit loss exposures, and discount rates. The securitization method involves utilizing market securitization data to value the assets as if a securitization transaction had been executed. Inputs used include observable market-based MBS data and pricing adjustments based on unobservable data reflecting the liquidity risk, credit loss exposure and other characteristics of the underlying loans. The internal risk weighted balances of loans are grouped by product type for purposes of these estimated valuations. For nonaccruing loans, fair value is estimated by discounting management's estimate of future cash flows with a discount rate commensurate with the risk associated with such assets. Fair value of collateral-dependent loans is primarily based on the appraised value of the collateral.

Loans held for sale: Balances are loans that were transferred to loans held for sale that are reported at book value.

Securities held to maturity: The fair value of securities classified as HTM is estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flow. The pricing models used to value these securities generally begin with market prices (or rates) for similar instruments and make adjustments based on the unique characteristics of the instrument being valued. These adjustments reflect assumptions made regarding the sensitivity of each security's value to changes in interest rates and prepayment speeds.

Other investment securities: The cost basis carrying value of other investment securities, such as FHLB stock and FRB stock, is assumed to approximate the fair value of the securities. As a member of the FHLB and FRB, the Company is required to hold FHLB and FRB stock. The stock can be sold only to the FHLB and FRB upon termination of membership, or redeemed at the FHLB's or FRB's sole discretion.

Deposits: The fair value of demand deposits, checking with interest accounts, regular savings and money market accounts is the amount payable on demand at the balance sheet date. The fair value of term deposits is estimated by discounting the expected future cash flows using rates currently offered for deposits of similar remaining maturities.

Deposits held for sale: Balances are deposits that were transferred to held for sale that are reported at book value.

Federal funds purchased and securities sold under agreements to repurchase, other short-term borrowed funds, and long-term borrowed funds: Rates currently available to the Company for debt of similar terms and remaining maturities are used to discount the expected cash flows of existing debt.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table is a summary of fair value for financial instruments not recorded at fair value in the consolidated financial statements. The carrying amounts in the following table are recorded in the consolidated balance sheets under the indicated captions:

| (in millions) | March 31, 2014 | | | | | | | |
|--|----------------|------------|----------------|------------|----------------|------------|----------------|------------|
| | Total | | Level 1 | | Level 2 | | Level 3 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial Assets: | | | | | | | | |
| Loans and leases | \$87,083 | \$86,488 | \$— | \$— | \$60 | \$60 | \$87,023 | \$86,428 |
| Other loans held for sale | 1,248 | 1,248 | — | — | — | — | 1,248 | 1,248 |
| Securities held to maturity | 5,457 | 5,395 | — | — | 5,457 | 5,395 | — | — |
| Other investment securities | 935 | 935 | — | — | 935 | 935 | — | — |
| Financial Liabilities: | | | | | | | | |
| Deposits | 87,462 | 87,635 | — | — | 87,462 | 87,635 | — | — |
| Deposits held for sale | 5,188 | 5,188 | — | — | 5,188 | 5,188 | — | — |
| Federal funds purchased and securities sold under agreements to repurchase | 6,080 | 6,093 | — | — | 6,080 | 6,093 | — | — |
| Other short-term borrowed funds | 4,950 | 4,964 | — | — | 4,950 | 4,964 | — | — |
| Long-term borrowed funds | 1,403 | 1,395 | — | — | 1,403 | 1,395 | — | — |

| (in millions) | December 31, 2013 | | | | | | | |
|--|-------------------|------------|----------------|------------|----------------|------------|----------------|------------|
| | Total | | Level 1 | | Level 2 | | Level 3 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial Assets: | | | | | | | | |
| Loans and leases | \$85,859 | \$85,724 | \$— | \$— | \$74 | \$74 | \$85,785 | \$85,650 |
| Other loans held for sale | 1,078 | 1,078 | — | — | — | — | 1,078 | 1,078 |
| Securities held to maturity | 4,315 | 4,257 | — | — | 4,315 | 4,257 | — | — |
| Other investment securities | 935 | 935 | — | — | 935 | 935 | — | — |
| Financial Liabilities: | | | | | | | | |
| Deposits | 86,903 | 86,907 | — | — | 86,903 | 86,907 | — | — |
| Deposits held for sale | 5,277 | 5,277 | — | — | 5,277 | 5,277 | — | — |
| Federal funds purchased and securities sold under agreements to repurchase | 4,791 | 4,791 | — | — | 4,791 | 4,791 | — | — |
| Other short-term borrowed funds | 2,251 | 2,249 | — | — | 2,251 | 2,249 | — | — |
| Long-term borrowed funds | 1,405 | 1,404 | — | — | 1,405 | 1,404 | — | — |

NOTE 12 - REGULATORY MATTERS

As a BHC, the Company is subject to regulation and supervision by the FRBG. The primary subsidiaries of Citizens are its two insured depository institutions CBNA, a national banking association whose primary federal regulator is the OCC, and CBPA, a Pennsylvania-chartered savings bank regulated by the Department of Banking of the Commonwealth of Pennsylvania and supervised by the FDIC as its primary federal regulator. Under the regulatory capital adequacy guidelines of the FDICIA, the Company and its banking subsidiaries must meet specific capital requirements. These requirements are expressed in terms of the following ratios: (1) Risk-based Total Capital (total capital/risk-weighted on-and off-balance sheet assets); (2) Risk-based Tier 1 Capital (tier 1 capital/risk weighted on- and off-balance sheet assets); and (3) Tier 1 Leverage (tier 1 capital/adjusted average quarterly assets). To meet the regulatory capital requirements, the Company and its banking subsidiaries must maintain minimum Risk-based Total Capital, Risk-based Tier 1 Capital, and Tier 1 Leverage ratios. In addition, the Company must not be subject to a written agreement, order or capital directive with any of its regulators. Failure to meet minimum capital requirements can result in the initiation of certain actions that, if undertaken, could have a material effect on the Company's consolidated financial statements.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table presents capital and capital ratio information:

| (dollars in millions) | Actual | | FDIC Requirements | | | |
|---|----------|-------|--------------------------|-------|------------------------------------|-------|
| | | | Minimum Capital Adequacy | | Classification as Well-capitalized | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| <i>As of March 31, 2014</i> | | | | | | |
| Total Capital to Risk Weighted Assets | \$16,066 | 16.0% | \$8,029 | 8.0% | \$10,037 | 10.0% |
| Tier 1 Capital to Risk Weighted Assets | 13,460 | 13.4% | 4,015 | 4.0% | 6,022 | 6.0% |
| Tier 1 Capital to Average Assets (Leverage) | 13,460 | 11.4% | 3,542 | 3.0% | 5,904 | 5.0% |
| <i>As of December 31, 2013</i> | | | | | | |
| Total Capital to Risk Weighted Assets | \$15,885 | 16.1% | \$7,891 | 8.0% | \$9,863 | 10.0% |
| Tier 1 Capital to Risk Weighted Assets | 13,301 | 13.5% | 3,945 | 4.0% | 5,918 | 6.0% |
| Tier 1 Capital to Average Assets (Leverage) | 13,301 | 11.6% | 3,433 | 3.0% | 5,721 | 5.0% |

In accordance with federal and state banking regulations, dividends paid by the Company's banking subsidiaries to the Company itself are generally limited to the retained earnings of the respective banking subsidiaries unless specifically approved by the appropriate bank regulator. The Company declared and paid RBS total common stock dividends of \$25 million in 2014. There were \$1.2 billion in common stock dividends declared and paid for the year ended December 31, 2013. For the three months ended March 31, 2013, the Company declared and paid RBS total common stock dividends of \$40 million.

The earnings impact of goodwill impairment recognized by CBNA has put the bank subsidiary in the position of having to request specific approval from the OCC before executing capital distributions to its parent, Citizens. This requirement will be in place through the fourth quarter of 2015. As of March 31, 2014, the Company had liquid assets in excess of \$600 million compared to an annual interest burden on existing subordinated debt of approximately \$63 million on a non-consolidated basis.

The OCC recently determined that CBNA no longer meets the condition-namely, that CBNA must be both well-capitalized and well-managed to own a financial subsidiary, which is a subsidiary permitted to engage in a broader range of activities, similar to those of a financial holding company, than those permissible for a national bank. CBNA has two financial subsidiaries, CCO Investment Services Corp., a registered broker-dealer, and RBS Citizens Insurance Agency, Inc., a dormant entity. CBNA has entered into an agreement with the OCC (the "OCC Agreement") pursuant to which it must develop a remediation plan, which must be submitted to the OCC, setting forth the specific actions it will take to bring itself back into compliance with the conditions to own a financial subsidiary and the schedule for achieving that objective. Until CBNA satisfactorily addresses the deficiencies, it will be subject to restrictions on its ability to acquire control or hold an interest in any new financial subsidiary and to commence new activities in any existing financial subsidiary, without the prior consent of the OCC. If CBNA fails to remediate the condition within 180 days from March 13, 2014, or such longer period as the OCC may permit, it may have to divest itself of its financial subsidiaries and comply with any additional limitations or conditions on its conduct as the OCC may impose.

NOTE 13 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows:

| (in millions) | Three Months Ended March 31, | |
|--|------------------------------|-------|
| | 2014 | 2013 |
| Supplemental cash flow information: | | |
| Interest paid | \$76 | \$129 |
| Income taxes paid | 26 | 5 |
| Supplemental schedule of non-cash investing and financing activities: | | |
| Transfer of loans held for sale | 1,248 | — |
| Due to broker for securities purchased but not settled | 62 | — |

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 14 - RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

The following tables present the changes in the balances, net of taxes, of each component of OCI:

| (in millions) | Net Unrealized Gains (Losses) on Derivatives | Net Unrealized Gains (Losses) on Securities | Defined Benefit Pension Plans | Total AOCI |
|--|--|---|-------------------------------------|------------|
| Balance at December 31, 2012 | (\$240) | \$306 | (\$378) | (\$312) |
| Other comprehensive loss before reclassifications | 10 | (54) | — | (44) |
| Other than temporary impairment not recognized in earnings on securities | — | (29) | — | (29) |
| Amounts reclassified from other comprehensive income | 39 | (31) | — | 8 |
| Net other comprehensive income (loss) | 49 | (114) | — | (65) |
| Balance at March 31, 2013 | (\$191) | \$192 | (\$378) | (\$377) |

| (in millions) | Net Unrealized Gains (Losses) on Derivatives | Net Unrealized Gains (Losses) on Securities | Defined Benefit Pension Plans | Total AOCI |
|--|--|---|-------------------------------------|------------|
| Balance at December 31, 2013 | (\$298) | (\$91) | (\$259) | (\$648) |
| Other comprehensive loss before reclassifications | 59 | 71 | — | 130 |
| Other than temporary impairment not recognized in earnings on securities | — | (19) | — | (19) |
| Amounts reclassified from other comprehensive income | 7 | (14) | 1 | (6) |
| Net other comprehensive income (loss) | 66 | 38 | 1 | 105 |
| Balance at March 31, 2014 | (\$232) | (\$53) | (\$258) | (\$543) |

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table reports the amounts reclassified out of each component of OCI and into the Consolidated Statement of Operations:

| (in millions) | Three Months Ended March 31, | | Affected Line Item in the Consolidated Statements of Operations |
|--|-------------------------------|--------|---|
| | 2014 | 2013 | |
| Details about AOCI Components | Amount Reclassified from AOCI | | |
| Reclassification adjustment for net derivative gains (losses) included in net income (loss): | \$18 | (\$5) | Interest income |
| | (29) | (54) | Interest expense |
| | — | (2) | Other net gains |
| | (11) | (61) | Total before tax |
| | (4) | (22) | Tax expense |
| | (\$7) | (\$39) | Loss, net of tax |
| Reclassification of net securities gains (losses) to net income (loss): | \$25 | \$52 | Net gains on sales of securities available for sale |
| | (4) | (3) | Net impairment losses recognized in earnings |
| | 21 | 49 | Total before tax |
| | 7 | 18 | Tax expense |
| | \$14 | \$31 | Income, net of tax |
| Reclassification of changes related to the employee benefit plan: | (\$2) | \$— | Salaries and employee benefits |
| | (2) | — | Total before tax |
| | (1) | — | Tax benefit |
| | (\$1) | \$— | Loss, net of tax |
| Total reclassification gains (losses) | \$6 | (\$8) | Income (loss), net of tax |

The following table presents the effects to net income of the amounts reclassified out of OCI:

| (in millions) | Three Months Ended March 31, | |
|--|------------------------------|-------|
| | 2014 | 2013 |
| Net interest income (includes (\$11) and (\$59) of AOCI reclassifications, respectively) | \$808 | \$760 |
| Provision for credit losses | 121 | 90 |
| Noninterest income (includes \$21 and \$47 of AOCI reclassifications, respectively) | 358 | 433 |
| Noninterest expense (includes \$2 and \$0 of AOCI reclassifications, respectively) | 810 | 821 |
| Income before income tax expense | 235 | 282 |
| Income tax expense (includes \$2 and (\$4) income tax net expense from reclassification items, respectively) | 69 | 99 |
| Net income | \$166 | \$183 |

NOTE 15 - BUSINESS SEGMENTS

The Company is managed by its CEO on a divisional basis. The Company's two business segments are Consumer Banking and Commercial Banking. The business segments are determined based on the products and services provided, or the type of customer served. Each division has a Vice Chairman who reports directly to the CEO. The CEO has final authority over resource allocation decisions and performance assessment. The business segments reflect this management structure and the manner in which financial information is currently evaluated by the CEO. 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, and other unallocated assets, liabilities, revenues and expenses.

Segment results are determined based upon the Company's management reporting system, which assigns balance sheet and income statement items to each of the business segments. The process is designed around the Company's organizational and management structure and, accordingly, the results derived are not necessarily comparable with similar information published by other financial institutions. A description of each reportable segment and table of financial results is presented below.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

- **Consumer Banking** - The Consumer Banking segment focuses on retail customers and small businesses with annual revenues of up to \$25 million. It offers traditional banking products and services, including checking, savings, home loans, student loans, credit cards, business loans and financial management services. It also operates an indirect auto financing business, providing financing for both new and used vehicles through auto dealerships. The segment's distribution channels include a branch network, ATMs and a work force of experienced specialists ranging from financial consultants, mortgage loan officers and business banking officers to private bankers.
- **Commercial Banking** - The Commercial Banking segment primarily targets companies with annual revenues from \$25 million to \$2 billion and provides a full complement of financial products and solutions, including loans, leases, trade financing, deposits, cash management, foreign exchange, interest rate risk management, corporate finance and capital markets advisory capabilities. It focuses on small and middle-market companies and has dedicated teams with industry expertise in government banking, not-for-profit, healthcare, technology, asset finance, franchise finance, asset-based lending, commercial real estate, private equity and sponsor finance. While the segment's business development efforts are predominantly focused on our twelve-state core footprint, some of its specialized industry businesses also operate selectively on a national basis (such as healthcare, asset finance and franchise finance). Commercial Banking is organized by teams that target different client segments. A key component of the segment's growth strategy is to expand its loan portfolio by originating high-quality commercial loans, which produce revenues consistent with its financial objectives and complies with its conservative credit policies. Commercial underwriting is driven by cash flow analysis supported by collateral analysis and review. The commercial lending teams offer a wide range of commercial loan products, including commercial real estate loans; working capital loans and lines of credit; demand, term and time loans; and equipment, inventory and accounts receivable financing.

| | As of and for the Three Months Ended March 31, 2014 | | | |
|---|---|--------------------|----------|--------------|
| (in millions) | Consumer Banking | Commercial Banking | Other | Consolidated |
| Net interest income | \$537 | \$256 | \$15 | \$808 |
| Noninterest income | 219 | 107 | 32 | 358 |
| Total revenue | 756 | 363 | 47 | 1,166 |
| Noninterest expense | 638 | 153 | 19 | 810 |
| Profit before provision for credit losses | 118 | 210 | 28 | 356 |
| Provision for credit losses | 70 | (5) | 56 | 121 |
| Income (loss) before income tax expense | 48 | 215 | (28) | 235 |
| Income tax expense (benefit) | 16 | 74 | (21) | 69 |
| Net income (loss) | \$32 | \$141 | (\$7) | \$166 |
| Total Average Assets | \$47,610 | \$36,955 | \$39,339 | \$123,904 |

| | As of and for the Three Months Ended March 31, 2013 | | | |
|--|---|--------------------|----------|--------------|
| (in millions) | Consumer Banking | Commercial Banking | Other | Consolidated |
| Net interest income (expense) | \$548 | \$253 | (\$41) | \$760 |
| Noninterest income | 257 | 101 | 75 | 433 |
| Total revenue | 805 | 354 | 34 | 1,193 |
| Noninterest expense | 627 | 155 | 39 | 821 |
| Profit (loss) before provision for credit losses | 178 | 199 | (5) | 372 |
| Provision for credit losses | 83 | (22) | 29 | 90 |
| Income (loss) before income tax expense | 95 | 221 | (34) | 282 |
| Income tax expense (benefit) | 33 | 78 | (12) | 99 |
| Net income (loss) | \$62 | \$143 | (\$22) | \$183 |
| Total Average Assets | \$47,173 | \$34,968 | \$41,595 | \$123,736 |

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In addition to non-segment operations, Other includes certain reconciling items in order to translate the segment results that are based on management accounting practices into consolidated results. Management accounting practices utilized by the Company as the basis for presentation for segment results include the following:

- *FTP adjustments:* The Company utilizes an FTP system to eliminate the effect of interest rate risk from the segments' net interest income because such risk is centrally managed within the Treasury function. The FTP system credits (or charges) the segments with the economic value of the funds created (or used) by the segments. The FTP system provides a funds credit for sources of funds and a funds charge for the use of funds by each segment. The summation of the interest income/expense and FTP charges/credits for each segment is its designated net interest income. The variance between the Company's cumulative FTP charges and cumulative FTP credits is allocated to the individual business segments.
- *Provision for credit losses allocations:* Provision for credit losses is allocated to each business segment based on actual net charge-offs that have been recognized by the business segment. The difference between the consolidated provision for credit losses and the business segments' net charge-offs is reflected in Other.
- *Income tax allocations:* Income taxes are assessed to each line of business at a standard tax rate with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Other.
- *Expense allocations:* Noninterest expenses incurred by centrally managed operations or business lines that directly support another business line's operations are charged to the applicable business line based on its utilization of those services.
- *Goodwill:* For impairment testing purposes, the Company's allocates goodwill to its Consumer Banking and Commercial Banking reporting units. For management reporting purposes, the Company presents the goodwill balance (and any related impairment charges) in Other.

Substantially all revenues generated and long-lived assets held by the Company's business segments are derived from clients that reside in the United States. Neither segment earns revenue from a single external customer that represents 10 percent or more of the Company's total revenues.

NOTE 16 - SHARE-BASED COMPENSATION

RBS Group grants stock-based compensation awards to employees of the Company pursuant to its various long-term incentive plans. These plans are administered by the Group Performance and Remuneration Committee of the RBS Group Board of Directors. All stock-based compensation awards granted to employees have been settled in RBS Group shares. For more information, refer to Note 26, "Share Based Compensation," in the Company's 2013 Consolidated Annual Report.

In March 2014, the Company granted a special IPO award. The award was granted half in rights to receive RBS Group shares and half as a fixed convertible bond. The entire special IPO award will convert into a right to receive CFG shares at the effective time of the IPO.

The Company awarded 9,336,972 and 6,643,104 shares to employees during the periods ended March 31, 2014 and 2013, respectively. The grant date fair value of the shares was \$51 million and \$31 million for the three months ended March 31, 2014 and 2013, respectively. Compensation expense related to share based plans was \$19 million and \$10 million for the three months ended March 31, 2014 and 2013, respectively.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 17 - EARNINGS PER SHARE

| (dollars in millions, except per share amounts) | Three Months Ended March 31, | |
|--|------------------------------|--------------|
| | 2014 | 2013 |
| Numerator: | | |
| Income from operations | \$166 | \$183 |
| Preferred stock dividends and accretions | — | — |
| Net income available to common shareholders | <u>\$166</u> | <u>\$183</u> |
| Denominator: | | |
| Weighted-average common shares outstanding - basic | 3,382 | 3,382 |
| Potential common shares | — | — |
| Weighted-average common shares outstanding - diluted | <u>3,382</u> | <u>3,382</u> |
| Earnings per common share: | | |
| Basic | \$49,087.34 | \$54,139.78 |
| Diluted | 49,087.34 | 54,139.78 |

NOTE 18 - OTHER OPERATING EXPENSE

The following table presents the details of other operating expense:

| (in millions) | Three Months Ended March 31, | |
|----------------------------------|------------------------------|--------------|
| | 2014 | 2013 |
| Deposit insurance | \$20 | \$25 |
| Promotional expense | 20 | 19 |
| Settlements and operating losses | 29 | 12 |
| Postage and delivery | 13 | 12 |
| Other | 64 | 59 |
| Total other operating expense | <u>\$146</u> | <u>\$127</u> |

NOTE 19 - SUBSEQUENT EVENTS

The Company has evaluated events that have occurred subsequent to March 31, 2014 through May 30, 2014, the date the consolidated financial statements were issued. On May 29, 2014, the Company purchased a portfolio of auto loans with outstanding balances of approximately \$150 million. On the same date, the Company entered into an agreement with the same party to purchase auto loans for future rolling 90 day periods that automatically renew until termination by either party. For the first year, the agreement requires the purchase of a minimum of \$250 million of outstanding balances to a maximum of \$600 million per rolling 90 day period. For rolling 90 day periods after the first year, the minimum and maximum purchases are \$400 million and \$600 million, respectively. The Company may cancel the agreement at will with payment of a variable termination fee. After 3 years, there is no termination fee. The Company is not aware of any additional subsequent events which would require recognition or disclosure in the consolidated financial statements.