CITIZENS FINANCIAL GROUP INC/RI
Form 10-K
February 21, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended
December 31, 2018
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From
(Not Applicable)
Commission File Number 001-36636
(Exact name of the registrant as specified in its charter)

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

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

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

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

Title of each class	Name of each exchange on which registered
Common stock, $0.01 par value per share	New York Stock Exchange
Depositary Shares each representing a 1/40th interest in a share of 6.350% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [ü] Yes [ ] No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] Yes [ü] No
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. [ü] Yes [ ] No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). [ü] Yes [ ] No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ü]

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

Large accelerated filer	[ü]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]
		Emerging growth company	[ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

The aggregate market value of voting stock held by nonaffiliates of the Registrant was $18,789,421,828 (based on the June 30, 2018 closing price of Citizens Financial Group, Inc. common shares of $38.90 as reported on the New York Stock Exchange). There were 460,390,006 shares of Registrant’s common stock ($0.01 par value) outstanding on February 1, 2019.

Documents incorporated by reference

Portions of Citizens Financial Group, Inc.’s proxy statement to be filed with the United States Securities and Exchange Commission in connection with Citizens Financial Group, Inc.’s 2019 annual meeting of stockholders (the “Proxy Statement”) are incorporated by reference into Part III hereof. Such Proxy Statement will be filed within 120 days of Citizens Financial Group, Inc.’s fiscal year ended December 31, 2018.

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CITIZENS FINANCIAL GROUP, INC.

GLOSSARY OF ACRONYMS AND TERMS

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

More information about factors that could cause actual results to differ materially from those described in the forward-looking statements can be found under “Risk Factors” in Part I, Item 1A, included in this Report.

CITIZENS FINANCIAL GROUP, INC.

PART I
ITEM 1. BUSINESS
Citizens Financial Group, Inc. is the 13th largest retail bank holding company in the United States.[1] Headquartered in Providence, Rhode Island, Citizens offers a broad range of retail and commercial banking products and services to more than five million individuals, small businesses, middle-market companies, large corporations and institutions, largely through approximately 1,100 branches in 11 states in the New England, Mid-Atlantic and Midwest regions and approximately 140 retail and commercial non-branch offices located in our branch banking footprint and in other states and the District of Columbia, which are contiguous with our footprint. At December 31, 2018, the Company had total assets of $160.5 billion, total deposits of $119.6 billion and total stockholders' equity of $20.8 billion.
Citizens is a bank holding company which was incorporated under Delaware state law in 1984 and whose primary federal regulator is the Board of Governors of the Federal Reserve System ("FRB"). As of December 31, 2018, our primary subsidiaries were Citizens Bank, N.A. ("CBNA"), a national banking association whose primary federal regulator is the Office of the Comptroller of the Currency ("OCC"), and Citizens Bank of Pennsylvania ("CBPA"), a Pennsylvania-chartered savings bank regulated by the Department of Banking of the Commonwealth of Pennsylvania and supervised by the Federal Deposit Insurance Corporation (the "FDIC") as its primary federal regulator. On January 2, 2019, we consolidated our banking subsidiaries via a merger of CBPA into CBNA in order to streamline governance and enterprise risk management, improve CBNA's risk profile and gain operational efficiencies. CBNA is now our primary subsidiary and our sole banking subsidiary.
Business Segments
We manage our business through two reportable business operating segments: Consumer Banking and Commercial Banking. The Company's activities outside the two business operating segments are classified as "Other" and include treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses, including income tax expense. The Other classification also includes the financial impact of non-core, liquidating loan portfolios and other non-core assets and liabilities. For a description of non-core assets, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Analysis of Financial Condition — Loans and Leases — Non-Core Assets" in Part II, Item 7, of this Report. For additional information regarding our business segments see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — 2018 compared with 2017 — Business Operating Segments" in Part II, Item 7 and Note 25 "Business Operating Segments" in the Notes to Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, of this Report.
The following table presents selected financial information for our business operating segments, Other and consolidated:

	For the Year Ended December 31,							
	2018				2017			
(in millions)	Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	$3,064	$1,497	($29)	$4,532	$2,651	$1,411	$111	$4,173
Noninterest income	973	545	78	1,596	905	538	91	1,534
Total revenue	4,037	2,042	49	6,128	3,556	1,949	202	5,707
Noninterest expense	2,723	813	83	3,619	2,593	772	109	3,474
Net income	$767	$927	$27	$1,721	$452	$774	$426	$1,652
Total average loans and leases and loans held for sale	$60,691	$51,344	$2,446	$114,481	$58,371	$48,655	$2,946	$109,972
Total average deposits	$77,542	$30,704	$7,611	$115,857	$74,873	$30,005	$6,996	$111,874

Consumer Banking Segment
Consumer Banking serves retail customers and small businesses with annual revenues of up to $25 million, with products and services that include deposit products, mortgage and home equity lending, credit cards, business loans, wealth management and investment services largely across our 11-state traditional banking footprint. We also offer

auto loans, education loans, and unsecured and product financing loans in addition to select digital deposit

(1) According to SNL Financial as of September 30, 2018.

products nationwide.
Consumer Banking operates a multi-channel distribution network with a workforce of approximately 6,200 branch colleagues, approximately 1,100 branches, including about 310 in-store locations, and approximately 2,900 ATMs. Our network includes approximately 1,320 specialists covering lending, savings and investment needs as well as a broad range of small business products and services. We serve customers on a national basis through telephone service centers as well as through our online and mobile platforms where we offer customers the convenience of depositing funds, paying bills and transferring money between accounts and from person to person, as well as a host of other everyday transactions.
We believe our strong retail deposit market share in our core regions, which have relatively diverse economies and affluent demographics, is a competitive advantage. As of June 30, 2018, we ranked second by retail deposit market share in the New England region and ranked in the top five in nine of our ten principal MSAs.(1)
The following table presents information regarding our competitive position in our principal MSAs:

(dollars in billions)		Total	Total	Deposit
MSA	Total Branches	Deposits	Deposit Rank	Market Share
Boston, MA	202	$22.1	2	14.0%
Philadelphia, PA	171	15.0	4	11.0
Pittsburgh, PA	118	8.7	2	16.2
Providence, RI	93	8.6	1	26.0
Detroit, MI	81	5.5	6	7.0
Cleveland, OH	51	3.9	4	10.1
Manchester, NH	20	2.5	1	30.2
Buffalo, NY	41	1.9	4	8.9
Albany, NY	22	1.9	3	12.3
Rochester, NY	25	1.7	5	9.6

Source: FDIC, June 2018. Principal MSAs determined by total retail branch count. Deposits capped at $500 million per branch. Excludes “non-retail banks” as defined by SNL Financial. The scope of “non-retail banks” is subject to the discretion of SNL Financial, but typically includes: industrial bank and non-depository trust charters, institutions with more than 20% brokered deposits (of total deposits), institutions with more than 20% credit card loans (of total loans), institutions deemed not to broadly participate in the banking services market and other nonretail competitor banks.
Commercial Banking Segment
Commercial Banking primarily serves companies and institutions with annual revenues of over $25 million to more than $3.0 billion and strives to be our clients’ trusted advisor and preferred provider for their banking needs. We offer a broad complement of financial products and solutions, including lending and leasing, deposit and treasury management services, foreign exchange and interest rate risk management solutions, as well as corporate finance, merger and acquisition, and debt and equity capital markets capabilities.
Commercial Banking is structured along business lines and product groups. The business lines, Corporate Banking and Commercial Real Estate, and the product groups, Treasury Solutions and Corporate Finance & Capital Markets, work in teams to understand client needs and provide comprehensive solutions to meet those needs. We acquire new clients through a coordinated approach to the market, leveraging deep industry knowledge in specialized banking groups and a geographic coverage model.
Our Corporate Banking business line services middle market domestic commercial and industrial clients with annual gross revenues of $25 million to $500 million, and mid-corporate clients with annual revenues of $500 million to more than $3.0 billion. In several areas, such as Healthcare, Technology, and Franchise Finance, we offer a more dedicated and tailored approach to better meet the unique needs of these client segments. Smaller commercial clients, with an affinity for local bank branch support, cluster around our 11 state footprint. Larger clients seeking more specialty financial services expertise are covered nationally. Corporate Banking is a general lending business which offers a broad range of products, including secured and unsecured lines of credit, term loans, commercial mortgages, domestic and global treasury management solutions, trade services, interest rate products, foreign exchange services

and letters of credit.

[1] According to SNL Financial.

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

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

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

Business Strategy

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

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

Develop differentiated value propositions to acquire, deepen, and retain core customer segments: We have focused on certain customer segments where we believe we are well positioned to compete. In Consumer Banking, we focus on mass market and mass affluent customers. In Commercial Banking, we focus on customers in the middle market, mid-corporate, and certain industry vertical areas. By developing differentiated and targeted value propositions, we believe we can attract new customers, deepen relationships with existing customers, and deliver an enhanced customer experience.

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

Operate with financial discipline and a mindset of continuous improvement to self-fund investments: We believe that continued focus on operational efficiency is critical to our profitability and the ability to continue to reinvest to drive future growth. We launched the first Tapping our Potential ("TOP") initiative in late 2014 which was designed to improve the effectiveness, efficiency, and competitiveness of the franchise, and we commenced the fifth phase of this initiative in the second half of 2018.

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

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

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

Competition

The financial services industry is highly competitive. Our branch footprint is in the New England, Mid-Atlantic and Midwest regions, though certain lines of business serve national markets. Within these markets we face competition from community banks, super-regional and national financial institutions, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, hedge funds and private equity firms. Some of our larger competitors may make available to their customers a broader array of product, pricing and structure alternatives while some smaller competitors may have more liberal lending policies and processes. Competition among providers of financial products and services continues to increase, with consumers having the opportunity to select from a growing variety of traditional and nontraditional alternatives. The ability of non-banking financial institutions, including FinTech companies, to provide services previously limited to commercial banks has also intensified competition.

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

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

Regulation and Supervision

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

We and our subsidiaries and affiliates are subject to numerous examinations by federal and state banking regulators, as well as the SEC, FINRA and various state insurance and securities regulators. In some cases, regulatory agencies may take supervisory actions that may not be publicly disclosed, and such actions may restrict or limit our activities or activities of our subsidiaries. As part of our regular examination process, our and CBNA's respective regulators may advise us or CBNA to operate under various restrictions as a prudential matter. We and CBNA have periodically received requests for information from regulatory authorities at the federal and state level, including from state insurance commissions, state attorneys general, federal agencies or law enforcement authorities, securities regulators and other regulatory authorities, concerning their business practices. Such requests are considered incidental to the normal conduct of business. For a further discussion of how regulatory actions may impact our business, see "Risk Factors" in Part I, Item 1A, included in this Report. For additional information regarding regulatory and supervisory matters, see Note 18 "Commitments and Contingencies" in the notes to our Consolidated Financial Statements in Part II, Item 8 of this Report.

Overview

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

On July 3, 2018, we received regulatory approval from the OCC to consolidate our two banking subsidiaries via a merger of CBPA into CBNA. We completed this consolidation on January 2, 2019, such that CBNA is now our sole banking subsidiary. CBNA is a national banking association. As such, it is subject to regulation, examination and supervision by the OCC as its primary federal regulator and by the FDIC as the insurer of its deposits.

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

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

Financial Regulatory Reform

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

Prior to amendment by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 ("EGRRCPA"), which was signed into law on May 24, 2018, Section 165 of the Dodd-Frank Act directed the FRB to establish enhanced prudential standards applicable to systemically important financial institutions ("SIFIs"), bank holding companies with total consolidated assets of $50 billion or more. The FRB has adopted final rules implementing three aspects of Section 165: liquidity requirements, stress testing of capital, and overall risk management requirements. The current rules' liquidity requirements are described below under "—Liquidity Requirements", and their stress testing requirements are described below under "—Capital Planning and Stress Testing Requirements." In addition, the resolution planning requirements implemented by the FRB and FDIC are described below under "—Resolution Planning".

EGRRCPA amended the Dodd-Frank Act by increasing the asset threshold for application of these enhanced prudential standards from $50 billion to $250 billion. EGRRCPA's increased asset threshold took effect immediately for bank holding companies with total consolidated assets less than $100 billion. The increased asset threshold generally will become effective 18 months after the date of enactment (that is, in November 2019) for bank holding companies with total consolidated assets of $100 billion or more but less than $250 billion, including Citizens. The FRB is authorized, however, during the 18-month period to exempt, by order, any bank holding company with assets between $100 billion and $250 billion from any enhanced prudential standard requirement. The FRB is also authorized to apply any enhanced prudential standard requirement to any bank holding company with between $100 billion and $250 billion in total consolidated assets that would otherwise be exempt under EGRRCPA, if the FRB determines that such action is appropriate to address risks to financial stability and promote safety and soundness, taking into consideration certain factors including the bank holding company's capital structure, riskiness, complexity, financial activities (including financial activities of subsidiaries), size, and any other risk-related factors that the FRB deems appropriate. U.S. global systemically important bank holding companies ("G-SIBs") and bank holding companies with $250 billion or more in total consolidated assets remain fully subject to the Dodd-Frank Act's enhanced prudential standards requirements.

In October 2018, the FRB and the other federal banking regulators proposed rules that would tailor the application of the enhanced prudential standards to bank holding companies and depository institutions to implement the EGRRCPA amendments ("Tailoring NPRs"). The proposed rules would assign each U.S. bank holding company with $100 billion or more in total consolidated assets, as well as its bank subsidiaries, to one of four categories based on its size and five risk-based indicators: (i) cross-jurisdictional activity, (ii) weighted short-term wholesale funding, (iii) nonbank assets, (iv) off-balance sheet exposure, and (v) status as a U.S. G-SIB. Under the Tailoring NPRs, "Category IV standards" would apply to banking organizations with at least $100 billion in total consolidated assets that do not meet any of the thresholds specified for Categories I through III. Category I standards would be applicable to U.S. G-SIBs; Category II standards would be applicable to non-G-SIBs with $700 billion or more in total consolidated assets or at least $100 billion in total consolidated assets and $75 billion or more in cross-jurisdictional activity; and Category III standards would be applicable to banking organizations that are not subject to Category I or Category II standards and that have at least $250 billion in total consolidated assets or at least $100 billion in total consolidated assets and $75 billion or more in any of three indicators: (i) nonbank assets, (ii) weighted short-term wholesale funding, or (iii) off-balance sheet exposures.

In connection with the release of the proposed rules, FRB staff indicated which firms would fall into each of the four categories based on data for the second quarter of 2018. According to the FRB staff's projections, Citizens would be a "Category IV" firm under the proposed rules. Firms subject to Category IV standards would generally be subject to the same capital and liquidity requirements as firms with under $100 billion in total consolidated assets, but would also be required to monitor and report certain risk-based indicators. Accordingly, under the Tailoring NPRs, Category IV firms would (i) no longer be subject to any LCR or proposed NSFR requirement, (ii) remain not subject to advanced approaches capital requirements, (iii) remain eligible to opt-out of the requirement to recognize most elements of Accumulated Other Comprehensive Income in regulatory capital, (iv) remain not subject to the supplementary leverage ratio, (v) remain not subject to the countercyclical capital buffer, (vi) no longer be subject to company-run stress testing requirements and (vii) become subject to supervisory stress testing on a biennial instead of annual basis. We discuss other elements of the proposed rules where relevant below. The Tailoring NPRs are subject to modification through the federal rulemaking process in accordance with the Administrative Procedures Act.

The U.S. Basel III rules, summarized briefly in the "—Capital" section below, have impacted our level of capital, and may influence the types of business we may pursue and how we pursue business opportunities. Among other things, the U.S. Basel III rules raised the required minimums for certain capital ratios, added a common equity ratio, included capital buffers, and restricted what constitutes capital. The capital and risk weighting requirements became effective for us on January 1, 2015.

Many of the provisions of the Dodd-Frank Act, EGRRCPA, and other laws are subject to further rulemaking, guidance and interpretation by the applicable federal regulators. The ultimate effects of EGRRCPA and the Tailoring NPRs on Citizens, CBNA and their respective subsidiaries and activities will be subject to the final form of the Tailoring NPRs and additional rulemakings issued by the FRB and other federal regulators. We will continue to evaluate the impact of any changes in law and any new regulations promulgated, including changes in regulatory costs and fees, modifications to consumer products or disclosures required by the CFPB and the requirements of the enhanced supervision provisions, among others.

Financial Holding Company Regulation

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

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

Capital

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

The U.S. Basel III rules, among other things, (i) impose a capital measure called common equity tier 1 capital, or “CET1 capital”, (ii) specify that tier 1 capital consists of CET1 capital and “additional tier 1 capital” instruments meeting certain revised requirements, (iii) define CET1 capital narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments to capital as compared to previous regulations. Under the U.S. Basel III rules, the minimum capital ratios are:

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

The U.S. Basel III rules also impose a capital conservation buffer ("CCB") on top of the three minimum risk-weighted asset ratios listed above. The implementation of the CCB began on January 1, 2016 at 0.625% and increased by 0.625% annually over a three year phase-in period, which ended January 1, 2019. The CCB for 2018 was 1.875%, and increased to its fully phased-in level of 2.5% as of January 1, 2019. Banking institutions that fail to meet the effective minimum ratios once the fully phased-in CCB is taken into account (that is, 7.0% for CET1 capital to risk-weighted assets, 8.5% for tier 1 capital to risk-weighted assets and 10.5% for total capital to risk-weighted assets) will be subject to constraints on capital distributions, including dividends and share repurchases, and certain discretionary executive compensation. The severity of the constraints depends on the amount of the shortfall and the institution's "eligible retained income" (that is, four quarter trailing net income, net of distributions and tax effects not reflected in net income). For more details, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital and Regulatory Matters" in Part II, Item 7, included in this Report. On April 10, 2018, the FRB issued a proposal designed to create a single, integrated capital requirement by combining the quantitative assessment of firms' capital plans with the CCB requirement. Details of this proposal are discussed under "—Capital Planning and Stress Testing Requirements" below. Although the proposal, if adopted, would change the way in which the minimum capital ratios are calculated, firms would continue to be subject to progressively more stringent constraints on capital actions as they approach the minimum ratios.

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

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

In November 2017, the federal banking regulators issued a final rule that extended the 2017 transition provisions for certain U.S. Basel III capital rules for non-advanced approaches banking organizations, including us. Effective January 1, 2018, the final rule retains the 2017 U.S. Basel III transitional treatment of certain DTAs, mortgage servicing assets, investments in unconsolidated financial institutions and minority interests. As a result, since January 1, 2018, our mortgage servicing assets have retained their 2017 risk weight treatment, which will continue until the federal banking regulators revise the extended transitional treatment under the November 2017 final rule, which may occur in connection with the finalization of the related September 2017 proposal to simplify the capital treatment of certain DTAs, mortgage servicing assets, significant investments in unconsolidated financial institutions and minority interests.

The U.S. Basel III rules prescribe a standardized approach for risk weighting many categories of assets. These categories generally range from 0% for U.S. government and agency securities, to 600% for certain equity exposures, to 1,250% for certain securitization exposures.

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

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

Liquidity Requirements

We are currently subject to the Basel III-based U.S. LCR rule, which is a quantitative liquidity metric designed to ensure that a covered bank or bank holding company maintains an adequate level of unencumbered high-quality liquid assets to cover expected net cash outflows over a 30-day time horizon under an acute liquidity stress scenario; however, as noted above, under the Tailoring NPRs, Category IV firms, including Citizens, would no longer be subject to any LCR requirement. The LCR rule currently applies in its most comprehensive form only to advanced approaches bank holding companies (that is, those with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposures) and depository institution subsidiaries of such bank holding companies with $10 billion or more in total consolidated assets. The LCR rule, following the threshold amendments under EGRRCPA, currently applies in a modified form to bank holding companies such as the Parent Company that have $100 billion or more but less than $250 billion in total consolidated assets and less than $10 billion in total on-balance sheet foreign exposure. The U.S. version of the LCR differs in certain respects from the Basel Committee's version; the U.S. version includes a narrower definition of high-quality liquid assets, different prescribed cash inflow and outflow assumptions for certain types of instruments and transactions, and a shorter phase-in schedule that began on January 1, 2015 and is now complete. The modified LCR currently requires us to maintain a ratio of high-quality liquid assets to net cash outflows of 70% (compared to 100% in the comprehensive LCR applicable to advanced approaches bank holding companies). At December 31, 2018, our LCR on the modified basis was above the minimum requirement.

Until the changes to the LCR requirement contained in the Tailoring NPRs are adopted, as a modified LCR company, we are required to calculate our LCR on a monthly basis. If a covered company fails to meet the minimum required LCR, it must promptly notify its primary federal banking regulator and may be required to take remedial actions. In December 2016, the FRB issued a final rule that requires bank holding companies currently subject to the LCR rule to disclose publicly, on a quarterly basis, quantitative and qualitative information about certain components of their LCR. For modified LCR bank holding companies, this disclosure requirement began with the fourth quarter of 2018 and is required to be disclosed by March 1, 2019. We will publish the required information on quantitative and qualitative components of our LCR on our regulatory filings and disclosures page on our Investor Relations website at http://investor.citizensbank.com.

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

Finally, per the liquidity rules included in the FRB's enhanced prudential standards adopted pursuant to Section 165 of the Dodd-Frank Act (referred to above under "—Financial Regulatory Reform"), we are also required to maintain a buffer of highly liquid assets based on projected funding needs for 30 days. The liquidity buffer is in addition to the federal banking regulators' LCR rule and is described by the FRB as being "complementary" to the LCR. Under the Tailoring NPRs, the liquidity buffer requirements for Category IV firms, such as Citizens, would not change, and Category IV firms would remain subject to liquidity risk management requirements; however, these requirements would be tailored such that these firms would be required to: (i) calculate collateral positions monthly, as opposed to weekly as is currently required; (ii) establish a more limited set of liquidity risk limits than are currently required; and (iii) monitor fewer elements of intraday liquidity risk exposures than are currently monitored. Category IV firms would also be subject to liquidity stress testing quarterly, rather than monthly, and would be required to report liquidity data on a monthly basis.

Capital Planning and Stress Testing Requirements

Under the CCAR process, bank holding companies with $100 billion or more in total consolidated assets are required to develop and maintain a capital plan and to submit the plan to the FRB for review. CCAR is designed to

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evaluate a bank holding company's capital adequacy, capital adequacy process and planned capital distributions, such as dividend payments and common stock repurchases. As part of CCAR, the FRB evaluates whether a bank holding company has sufficient capital to continue operations under various hypothetical scenarios of economic and financial market stress. These scenarios currently include both bank holding company- and FRB-developed scenarios, including an "adverse" and a "severely adverse" stress scenario (although the FRB, on January 8, 2019, proposed amendments that, among other things, would eliminate the adverse scenario). The FRB also evaluates whether the bank holding company has robust, forward-looking capital planning processes that accounts for the bank holding company's unique risks.

Due to the importance and intensity of the stress tests and the CCAR process, we have dedicated significant resources to comply with stress testing and capital planning requirements and may continue to do so in the future.

Currently, any capital plan submitted to the FRB must cover a "planning horizon" of at least nine quarters beginning with the quarter preceding the submission of the plan (for example, January 1, 2020 for the capital plans required to be filed on or before April 5, 2020). Bank holding companies are also subject to an ongoing requirement to revise and resubmit their capital plans upon the occurrence of certain events specified by rule, or when required by the FRB. The FRB determines whether to object to a company's capital plan based on whether the plan passes quantitative tests requiring that the company demonstrate that it will continue to meet all minimum capital requirements applicable to it over the nine-quarter planning horizon under all applicable scenarios. The FRB also incorporates an assessment of the qualitative aspects of the firm's capital planning process into regular, ongoing supervisory activities and through targeted, horizontal assessments of particular aspects of capital planning.

The FRB's capital planning and stress testing rules generally make our ability to make quarterly capital distributions in the form of dividends and share repurchases contingent on the FRB's non-objection to our capital plan, and limit our ability to make quarterly capital distributions if the amount of our actual cumulative quarterly capital issuances of instruments that qualify as regulatory capital are less than we indicated in our submitted capital plan for which we received a non-objection from the FRB.

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

On February 5, 2019, the FRB announced that certain less-complex BHCs with less than $250 billion in assets, including Citizens, would not be required to be subject to supervisory stress testing, company-run stress testing, or the CCAR quantitative assessment for the 2019 cycle (although firms could elect to submit a capital plan for the 2019 cycle). The FRB has also announced that, unless Citizens elects to submit a capital plan for the 2019 cycle, for the period from July 1, 2019 through June 30, 2020, Citizens may make capital distributions up to the amount that would have allowed Citizens to remain above all minimum capital requirements in CCAR 2018, adjusted for any changes in Citizens' regulatory capital ratios since the FRB acted on Citizens' 2018 capital plan. We remain subject to the requirement to develop and maintain an annual capital plan that is reviewed and approved by our Board of Directors (or one of its committees), and we must submit our planned capital actions for the period between July 1, 2019 through June 30, 2020 to the FRB by April 5, 2019.

Additionally, under the Tailoring NPRs, Category IV firms, such as Citizens, would no longer be subject to company-run stress testing requirements (i.e., the requirement to stress test using bank holding company-developed and supervisory scenarios), but would remain subject to the quantitative review of their capital plans under CCAR, which the FRB noted that it plans to propose to conduct on a biennial, instead of annual, basis. In connection with the release of the Tailoring NPRs, the FRB noted that it expects to revise its guidance relating to capital planning to align with the proposed categories of standards set forth in the Tailoring NPRs, and the impact of the future proposal on

Citizens and its capital planning process will depend on the final form of the FRB's revised guidance.
Lastly, and as noted above, the FRB's April 10, 2018 proposal to create a single, integrated capital requirement by combining the quantitative assessment of CCAR with the CCB requirement would, if adopted, replace the current static 2.5% CCB with a stress capital buffer ("SCB") requirement. The SCB, subject to a minimum of 2.5%, would reflect stressed losses in the supervisory severely adverse scenario of the FRB's supervisory stress tests and would also include four quarters of planned common stock dividends. The proposal would also introduce a stress leverage buffer ("SLB") requirement, similar to the SCB, which would apply to the Tier 1 leverage ratio. In addition, the

proposal would eliminate the quantitative objection provisions of CCAR but would require a bank holding company to reduce its planned capital distributions if those distributions would not be consistent with the applicable capital buffer constraints based on the bank holding company's own baseline scenario projections. The FRB has stated that it intends to propose revisions to the stress buffer requirements that would be applicable to Category IV bank holding companies to align with the proposed two-year supervisory stress testing cycle for Category IV bank holding companies. As is currently the case, under the proposal, a bank holding company subject to CCAR would generally not be permitted to exceed the capital distributions reflected in its capital plan either on a gross basis or net of capital issuances without prior approval of the FRB.

Resolution Planning

Under Section 165 of the Dodd-Frank Act, as amended by EGRRCPA, a bank holding company with total consolidated assets of $100 billion or more, such as Citizens, must currently submit a periodic resolution plan to the FRB and FDIC providing for the company's strategy for rapid and orderly resolution in the event of its material financial distress or failure. We are required to submit our most recent resolution plan to the FRB and FDIC by December 31, 2019. If the FRB and the FDIC jointly determine that our plan is not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code and we do not cure the deficiencies, the FRB and the FDIC may jointly impose more stringent capital, leverage or liquidity requirements or restrictions on our growth, activities or operations. In connection with the release of the Tailoring NPRs, the FRB noted that it expects to release a proposal to amend, with the FDIC, their joint resolution plan rule to address the applicability of resolution plan requirements for U.S. bank holding companies with between $100 billion and $250 billion in total consolidated assets, including Citizens, and to adjust the scope and applicability of resolution plan requirements for firms that remain subject to them.

The FDIC has separately implemented a resolution planning rule that currently requires insured depository institutions of $50 billion or more in total assets, such as CBNA, to periodically submit a resolution plan. CBNA submitted its most recent resolution plan to the FDIC in July 2018.

Standards for Safety and Soundness

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

Federal Deposit Insurance Act

The FDIA requires, among other things, that the federal banking regulators take "prompt corrective action" with respect to depository institutions that do not meet minimum capital requirements, as described above in "Capital." The FDIA sets forth the following five capital categories: "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital category depends upon how its capital levels compare with various relevant capital measures and certain other factors that are established by regulation. The federal banking regulators must take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions that are undercapitalized, significantly undercapitalized or critically undercapitalized, with the actions becoming more restrictive and punitive the lower the institution's capital category. Under existing rules, an institution that is not an advanced approaches institution is deemed to be "well capitalized" if it has (i) a CET1 ratio of at least 6.5%, (ii) a tier 1 capital ratio of at least 8%, (iii) a total capital ratio of at least 10%, and (iv) a tier 1 leverage ratio of at least 5%.

The FDIA's prompt corrective action provisions only apply to depository institutions and not to bank holding companies. The FRB's regulations applicable to bank holding companies separately define "well capitalized" for bank holding companies to require maintaining a tier 1 capital ratio of at least 6% and a total capital ratio of at least 10%. As described above under "—Financial Holding Company Regulation", a financial holding company that is not well-capitalized and well-managed (or whose bank subsidiaries are not well capitalized and well managed) under applicable prompt corrective action standards may be restricted in certain of its activities and ultimately may lose financial holding company status. As of December 31, 2018, the Parent Company and CBNA were well-capitalized.

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

Deposit Insurance

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

The deposit insurance assessment is calculated based on average consolidated total assets less average tangible equity of the insured depository institution during the assessment period. Deposit insurance assessments are also affected by the minimum reserve ratio with respect to the Deposit Insurance Fund ("DIF"). In March 2016, the FDIC issued a final rule that imposed on insured depository institutions with at least $10 billion in assets, including CBNA, a surcharge of 4.5 basis points per annum that continued through September 30, 2018, when the reserve ratio of the DIF reached 1.36%, exceeding the statutorily required minimum reserve ratio of 1.35%; therefore, the surcharge no longer applies.

Dividends

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

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

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

Support of Subsidiary Bank

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

Transactions with Affiliates and Insiders

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

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

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

Volcker Rule

The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in, sponsoring and having certain relationships with private funds such as hedge funds or private equity funds that would be an investment company for purposes of the Investment Company Act of 1940 but for the exclusions in sections 3(c)(1) or 3(c)(7) of that act, both subject to certain limited exceptions. The statutory provision is commonly called the "Volcker Rule." The regulations implementing the Volcker Rule, jointly issued by the FRB, OCC, FDIC, the SEC and the Commodity Futures Trading Commission ("CFTC"), require that large bank holding companies design and implement compliance programs to ensure adherence to the Volcker Rule's prohibitions. Maintenance and monitoring of the required compliance program requires the expenditure of resources and management attention. In July 2018, the FRB, OCC, FDIC, CFTC and SEC issued a notice of proposed rulemaking intended to tailor the application of the

Volcker Rule based on the size and scope of a banking entity's trading activities and to clarify and amend certain definitions, requirements and exemptions. The ultimate impact of any amendments to the Volcker Rule will depend on, among other things, further rulemaking and implementation guidance from the relevant U.S. federal regulatory agencies and the development of market practices and standards.

Consumer Financial Protection Regulations

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

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

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

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

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

Protection of Customer Personal Information and Cybersecurity

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

In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers' accessing internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties. For a further discussion of risks related to cybersecurity, see "Risk Factors" in Part I, Item 1A, of this Report.

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

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

Community Reinvestment Act Requirements

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

In April 2018, the U.S. Department of Treasury issued a memorandum to the Federal banking regulators with recommended changes to the CRA’s implementing regulations to reduce their complexity and associated burden on banks, and in August 2018, the OCC published an advance notice of proposed rulemaking soliciting “ideas for building a new framework to transform or modernize the regulations that implement the Community Reinvestment Act,” without proposing any specific revisions to present CRA requirements. We will continue to evaluate the impact of any changes to the regulations implementing the CRA.

Compensation

Our compensation practices are subject to oversight by the FRB and the OCC. The federal banking regulators have issued guidance designed to ensure that incentive compensation arrangements at banking organizations take into account risk and are consistent with safe and sound practices. The guidance sets forth the following three key principles with respect to incentive compensation arrangements: (i) the arrangements should provide employees with incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk; (ii) the arrangements should be compatible with effective controls and risk management; and (iii) the arrangements should be supported by strong corporate governance. The guidance provides that supervisory findings with respect to incentive compensation will be incorporated, as appropriate, into the organization’s supervisory ratings.

The U.S. financial regulators, including the FRB, the OCC and the SEC, jointly proposed regulations in 2011 and again in 2016 to implement the incentive compensation requirements of Section 956 of the Dodd-Frank Act. These regulations, among other things, prohibit incentive-based compensation arrangements that encourage inappropriate risk taking at specified regulated entities having at least $1 billion in total assets (including the Parent Company and CBNA). These regulations have not been finalized and the timing of final adoption and the form of any final regulations is uncertain. If the rules are adopted in the form proposed, they may restrict our flexibility with respect to the manner in which we structure compensation and adversely affect our ability to compete for talent.

Anti-Money Laundering

The USA PATRIOT Act, enacted in 2001 and renewed in 2006, substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Institutions must maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. We are prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence in dealings with foreign financial institutions and foreign customers. We also must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions. Recent laws provide law enforcement authorities with increased access to financial information maintained by banks.

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

FinCEN drafts regulations implementing the USA PATRIOT Act and other anti-money laundering and Bank Secrecy Act legislation. In May 2018, a FinCEN rule became effective which requires financial institutions to obtain beneficial ownership information with respect to legal entities with which such institutions conduct business, subject to certain exclusions and exemptions. Bank regulators are focusing their examinations on anti-money laundering compliance, and we continue to monitor and augment, where necessary, our anti-money laundering compliance programs.

Office of Foreign Assets Control Regulation

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

Regulation of Broker-Dealers

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

Heightened Risk Governance Standards

CBNA is subject to OCC guidelines imposing heightened risk governance standards on large national banks with average total consolidated assets of $50 billion or more. The guidelines set forth minimum standards for the design and implementation of a bank's risk governance framework, and minimum standards for oversight of that framework by a bank's board of directors. The guidelines are intended to protect the safety and soundness of covered banks and improve bank examiners' ability to assess compliance with the OCC's expectations. Under the guidelines, a bank may use its parent company's risk governance framework if the framework meets the minimum standards, the risk profiles of the parent company and the covered bank are substantially the same, and certain other conditions are met. CBNA has elected to use the Parent Company's risk governance framework. A bank's board of directors is required to have two members who are independent of the bank and parent company management. A bank's board of directors is responsible for ensuring that the risk governance framework meets the standards in the guidelines, providing active oversight and a credible challenge to management's recommendations and decisions and ensuring that the parent company decisions do not jeopardize the safety and soundness of the bank.

Anti-Tying Restrictions

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

Commercial Real Estate Lending

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

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

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

Intellectual Property

In the highly competitive banking industry in which we operate, trademarks, service marks, trade names and logos are important to the success of our business. We own and license a variety of trademarks, service marks, trade names, logos and pending registrations and are spending significant resources to develop our stand-alone brands.

Employees

As of December 31, 2018, we had approximately 18,100 full-time equivalent employees, including approximately 17,800 full-time colleagues, 100 part-time colleagues and 200 temporary employees. None of our employees are parties to a collective bargaining agreement. We consider our relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements.

ITEM 1A. RISK FACTORS

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

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

Risks Related to Our Business

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

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

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

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

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

Changes in interest rates may have an adverse effect on our profitability.
Net interest income historically has been, and in the near-to-medium term we anticipate that it will remain, a significant component of our total revenue. This is due to the fact that a high percentage of our assets and liabilities have been and will likely continue to be in the form of interest-bearing or interest-related instruments. Changes in interest rates can have a material effect on many areas of our business, including net interest income, deposit costs, loan volume and delinquency, and the value of our mortgage servicing rights. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Open Market Committee. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect our ability to originate loans and obtain deposits and the fair value of our financial assets and liabilities. If the interest rates on our interest-bearing liabilities increase at a faster pace than the interest rates on our interest earning assets, our net interest income may decline and, with it, a decline in our earnings may occur. Our net interest income and our earnings would be similarly affected if the interest rates on our interest earning assets declined at a faster pace than the interest rates on our interest-bearing liabilities.
We cannot control or predict with certainty changes in interest rates. Global, national, regional and local economic conditions, competitive pressures and the policies of regulatory authorities, including monetary policies of the FRB, affect interest income and interest expense. Although we have policies and procedures designed to manage the risks associated with changes in market interest rates, as further discussed under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Governance” in Part II, Item 7, included in this Report, changes in interest rates still may have an adverse effect on our profitability.
If our ongoing assumptions regarding borrower or depositor behavior are wrong or overall economic conditions are significantly different than we anticipate, then our risk mitigation may be insufficient to protect against interest rate risk and our net income would be adversely affected.
Changes in the method pursuant to which the LIBOR and other benchmark rates are calculated and their potential discontinuance could adversely impact our business operations and financial results.
Our floating-rate funding, certain hedging transactions and certain of the products that we offer, such as floating-rate loans, financing transactions and derivatives in connection with our customer accommodation trading activities, determine the applicable interest rate or payment amount by reference to a benchmark rate, such as the London Interbank Offered Rate (“LIBOR”), or to another financial metric. In the event any such benchmark rate or other referenced financial metric is significantly changed, replaced or discontinued, or ceases to be recognized as an acceptable market benchmark rate or financial metric, there may be uncertainty or differences in the calculation of the applicable interest rate or payment amount depending on the terms of the governing instrument, and there may be significant work required to transition to any new benchmark rate or other financial metric.
In response to concerns regarding the reliability and robustness of commonly used reference rates, in particular LIBOR, the Financial Stability Oversight Council and Financial Stability Board called for the development of alternative interest rate benchmarks. In 2014, the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York convened the Alternative Reference Rates Committee (“ARRC”) in order to identify best practices for alternative reference rates, identify best practices for contract robustness, develop an adoption plan, and create an implementation plan with metrics of success and a timeline. In June 2017, the ARRC identified the Secured Overnight Financing Rate (“SOFR”) as its recommended alternative to U.S. dollar LIBOR for use in certain new U.S. dollar derivatives and other financial instruments. Furthermore, in July 2017, the Chief Executive of the U.K. Financial Conduct Authority (“FCA”) announced that the FCA intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

Despite progress made to date by regulators and industry participants to prepare for the anticipated discontinuation of LIBOR, significant uncertainties still remain. Such uncertainties relate to, for example, whether LIBOR will continue to be viewed as an acceptable market benchmark rate, what rate or rates may become accepted alternatives to LIBOR, whether different benchmark rates may become accepted alternatives to LIBOR for different types of transactions and financial instruments, how the terms of any transaction or financial instrument will be adjusted to account for differences between LIBOR and any alternative rate selected (for example, if SOFR is used as an alternative, various adjustments, including a credit spread adjustment, may be necessary to reflect that SOFR is a secured overnight rate and LIBOR is a term unsecured rate), how any replacement would be implemented across the industry, and the effect of any changes in industry views or movement to alternative benchmarks would have on the markets for LIBOR-linked financial instruments.

The discontinuation of a benchmark rate or other financial metric, changes in a benchmark rate or other financial metric, or changes in market perceptions of the acceptability of a benchmark rate or other financial metric, including LIBOR, could, among other things, adversely affect the value of and return on certain of our financial instruments or products, result in changes to our risk exposures, or require renegotiation of previous transactions. In addition, any such discontinuation or changes, whether actual or anticipated, could result in market volatility, adverse tax or accounting effects, increased compliance, legal and operational costs, and risks associated with customer disclosures and contract negotiations.

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

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

Limitations on the manner in which regulated financial institutions, such as Citizens, can compensate their officers and employees, including those contained in pending rule proposals implementing requirements of Section 956 of the Dodd-Frank Act, may make it more difficult for such institutions to compete for talent with financial institutions and other companies not subject to these or similar limitations. If Citizens is unable to compete effectively, our business, financial condition and results of operations could be adversely affected, perhaps materially.

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

Liquidity risk is the risk that we will not be able to meet our obligations, including funding commitments, as they come due. This risk is inherent in our operations and can be heightened by a number of factors, including an over-reliance on a particular source of funding (including, for example, secured FHLB advances), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Like many banking groups, our reliance on customer deposits to meet a considerable portion of our funding has grown over recent years, and we continue to seek to increase the proportion of our funding represented by customer deposits. However, these deposits are subject to fluctuation due to certain factors outside our control, such as increasing competitive pressures for retail or corporate customer deposits, changes in interest rates and returns on other investment classes, or a loss of confidence by customers in us or in the banking sector generally which could result in a significant outflow of deposits within a short period of time. To the extent there is heightened competition among U.S. banks for retail customer deposits, this competition may increase the cost of procuring new deposits and/or retaining existing deposits, and otherwise negatively affect our ability to grow our deposit base. An inability to grow, or any material decrease in, our deposits could have a material adverse effect on our ability to satisfy our liquidity needs.

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

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

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

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

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

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

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

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

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

Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition.

From time to time, the FASB and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be operationally complex to implement and can materially impact how we record and report our financial condition and results of operations. For example, in June 2016, the FASB issued Accounting Standards Update 2016-13, Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), that will, effective January 1, 2020, substantially change the accounting for credit losses on loans and other financial assets held by banks, financial institutions and other organizations. The standard replaces existing incurred loss impairment guidance and establishes a single allowance framework for financial assets carried at amortized cost. Upon adoption of ASU 2016-13, companies must recognize credit losses on these assets equal to management’s estimate of credit losses over the full remaining expected life. Companies must consider all relevant information when estimating expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts. In December 2018, the Federal Reserve, OCC and FDIC released a final rule to revise their regulatory capital rules to address this upcoming change to the treatment of credit expense and allowances. The final rule provides an optional three-year phase-in period for the day-one adverse regulatory capital effects upon adopting the standard. The impact of this final rule on Citizens and CBNA will depend on whether we elect to phase in the impact of the standard over a three-year period. The standard is likely to have a negative impact, potentially materially, to the allowance and capital at adoption in 2020; however, Citizens is still evaluating the impact. It is also possible that Citizens’ ongoing reported earnings and lending activity will be negatively impacted in periods following adoption.

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

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

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

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

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

Operational risks are inherent in our businesses.

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

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

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

In addition, changes in the legal and regulatory framework under which we operate require us to update our information systems to ensure compliance. Our need to review and evaluate the impact of ongoing rule proposals, final rules and implementation guidance from regulators further complicates the development and implementation of new information systems for our business. Also, recent regulatory guidance has focused on the need for financial institutions to perform increased due diligence and ongoing monitoring of third-party vendor relationships, thus increasing the scope of management involvement and decreasing the efficiency otherwise resulting from our relationships with third-party technology providers. Given the significant number of ongoing regulatory reform initiatives, it is possible that we incur higher than expected information technology costs in order to comply with current and impending regulations. See "—Supervisory requirements and expectations on us as a financial holding company and a bank holding company and any regulator-imposed limits on our activities could adversely affect our ability to implement our strategic plan, expand our business, continue to improve our financial performance and make capital distributions to our stockholders.”

We are subject to a variety of cybersecurity risks that, if realized, could adversely affect how we conduct our business.
Information security risks for large financial institutions such as CFG have increased significantly in recent years in part because of the proliferation of new technologies, such as Internet and mobile banking to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, nation-states, activists and other external parties. Third parties with whom we or our customers do business also present operational and information security risks to us, including security breaches or failures of their own systems. The possibility of employee error, failure to follow security procedures, or malfeasance also presents these risks. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. In addition, to access our products and services, our customers may use personal computers, smartphones, tablets, and other mobile devices that are beyond our control environment. Although we believe that we have appropriate information security procedures and controls, our technologies, systems, networks and our customers' devices may be the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of the confidential, and/or proprietary information of CFG, our customers, our vendors, our counterparties, or our employees. We are under continuous threat of loss due to cyber-attacks, especially as we continue to expand customer capabilities to utilize the Internet and other remote channels to transact business.
Two of the most significant cyber-attack risks that we face are e-fraud and loss of sensitive customer data. Loss from e-fraud occurs when cybercriminals extract funds directly from customers' or our accounts using fraudulent schemes that may include Internet-based funds transfers. We have been subject to a number of e-fraud incidents historically. We have also been subject to attempts to steal sensitive customer data, such as account numbers and social security numbers, through unauthorized access to our computer systems including computer hacking. Such attacks are less frequent but could present significant reputational, legal and regulatory costs to us if successful. We have implemented certain technology protections such as Customer Profiling and Set-Up Authentication to be in compliance with the FFIEC Authentication in Internet Banking Environment ("AIBE") guidelines.
As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our layers of defense or to investigate and remediate any information security vulnerabilities. System enhancements and updates may also create risks associated with implementing new systems and integrating them with existing ones. Due to the complexity and interconnectedness of information technology systems, the process of enhancing our layers of defense can itself create a risk of systems disruptions and security issues. In addition, addressing certain information security vulnerabilities, such as hardware-based vulnerabilities, may affect the performance of our information technology systems. The ability of our hardware and software providers to deliver patches and updates to mitigate vulnerabilities in a timely manner can introduce additional risks, particularly when a vulnerability is being actively exploited by threat actors.
Despite our efforts to prevent a cyber-attack, a successful cyber-attack could persist for an extended period of time before being detected, and, following detection, it could take considerable time for us to obtain full and reliable information about the cybersecurity incident and the extent, amount and type of information compromised. During the course of an investigation, we may not necessarily know the full effects of the incident or how to remediate it, and actions and decisions that are taken or made in an effort to mitigate risk may further increase the costs and other negative consequences of the incident.
The techniques used by cyber criminals change frequently, may not be recognized until launched and can be initiated from a variety of sources, including terrorist organizations and hostile foreign governments. These actors may attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to data or our systems. In the event that a cyber-attack is successful, our business, financial condition or results of operations may be adversely affected. For a discussion of the guidance that federal banking regulators have released regarding cybersecurity and cyber risk management standards, see "Regulation and Supervision" in Part I, Item 1 — Business, included in this Report.
We rely heavily on communications and information systems to conduct our business.

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

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

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

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

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

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

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

Risks Related to Our Industry

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

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

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

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

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

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

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

Risks Related to Regulations Governing Our Industry

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

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

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

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

From time to time, bank regulatory agencies take supervisory actions that restrict or limit a financial institution's activities and lead it to raise capital or subject it to other requirements. Directives issued to enforce such actions may be confidential and thus, in some instances, we are not permitted to publicly disclose these actions. In addition, as part of our regular examination process, our and CBNA's respective regulators may advise us or CBNA to operate under various restrictions as a prudential matter. Any such actions or restrictions, if and in whatever manner imposed, could adversely affect our costs and revenues. Moreover, efforts to comply with any such nonpublic supervisory actions or restrictions may require material investments in additional resources and systems, as well as a significant commitment of managerial time and attention. As a result, such supervisory actions or restrictions, if and in whatever manner imposed, could have a material adverse effect on our business and results of operations; and, in certain instances, we may not be able to publicly disclose these matters.

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

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

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

There have been significant revisions to the laws and regulations applicable to Citizens that have been enacted or proposed in recent months. These and other rules to implement the changes have yet to be finalized, and the final timing, scope and impact of these changes to the regulatory framework applicable to financial institutions remain uncertain. For more information on the regulations to which we are subject and recent initiatives to reform financial institution regulation, see “Regulation and Supervision” in Part I, Item 1 — Business, included in this Report.

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

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

We could be required to act as a “source of strength” to CBNA, which would have a material adverse effect on our business, financial condition and results of operations.

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

- We may be compelled to contribute capital to CBNA, including by engaging in a public offering to raise such capital. Furthermore, any extensions of credit from us to CBNA that are included in CBNA’s capital would be subordinate in right of payment to depositors and certain other indebtedness of CBNA.
- In the event of a bank holding company’s bankruptcy, any commitment that the bank holding company had been required to make to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.
- In the event of impairment of the capital stock of CBNA, we, as CBNA’s stockholder, could be required to pay such deficiency.

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

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

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

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

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

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

Our operations are diverse and complex and we operate in legal and regulatory environments that expose us to potentially significant litigation risk. In the normal course of business, we have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our activities as a financial services institution, including with respect to alleged unfair or deceptive business practices and mis-selling of certain products. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or in financial distress. Moreover, a number of recent judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed “lender liability.” Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or stockholders. This could increase the amount of private litigation to which we are subject. For more information regarding ongoing significant legal proceedings in which we may be involved, see Note 18 “Commitments and Contingencies” to our audited Consolidated Financial Statements included in Part II, Item 8 — Financial Statements and Supplementary Data, included in this Report.

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

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

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

Bank holding companies with more than $100 billion in assets are currently required to submit resolution plans that, in the event of material financial distress or failure, establish the rapid, orderly and systemically safe liquidation of the company under the U.S. Bankruptcy Code. Separately, insured depository institutions with more than $50 billion in assets must submit to the FDIC a resolution plan whereby they can be resolved in a manner that is orderly and that ensures that depositors will receive access to insured funds within certain required timeframes. If the FRB and the FDIC jointly determine that the resolution plan of a bank holding company is not credible, and the company fails to cure the deficiencies in a timely manner, then the FRB and the FDIC may jointly impose on the company, or on any of its subsidiaries, more stringent capital, leverage or liquidity requirements or restrictions on growth, activities or operations, or require the divestment of certain assets or operations. If the FRB and the FDIC jointly determine that our resolution plan is not credible or would not facilitate our orderly resolution under the U.S. Bankruptcy Code, we could become subject to more stringent regulatory requirements or business restrictions, or have to divest certain of our assets or businesses. Any such measures could have a material adverse effect on our business, financial condition or results of operations.

Risks Related to our Common Stock

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

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

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

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market price of equity securities of many companies. These fluctuations have often been unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, loss of investor confidence, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock.

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters is in Providence, Rhode Island. As of December 31, 2018, we leased approximately 4.8 million square feet of office and retail branch space. Our portfolio of leased space consisted of 3.4 million square feet of retail branch space which spanned eleven states and 1.4 million square feet of non-branch space. As of December 31, 2018, we owned an additional 1 million square feet of office and branch space. We operated 76 branches in Rhode Island, 37 in Connecticut, 245 in Massachusetts, 13 in Vermont, 63 in New Hampshire, 120 in New York, 11 in New Jersey, 325 in Pennsylvania, 23 in Delaware, 100 in Ohio and 87 in Michigan. Of these branches, 1,074 were leased and the remainder were owned. These properties were used by both the Consumer Banking and Commercial Banking segments. Management believes the terms of the various leases were consistent with market standards and were derived through arm’s-length bargaining. We also believe that our properties are in good operating condition and adequately serve our current business operations. We anticipate that suitable additional or alternative space, including those under lease options, will be available at commercially reasonable terms for future expansion.

In the Summer of 2018, we completed the construction of our new campus in Johnston, Rhode Island. The three-building complex brought together approximately 3,200 colleagues from various locations to one, creating greater collaboration and efficiency.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

CITIZENS FINANCIAL GROUP, INC.

PART II

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

Our common stock is traded on the New York Stock Exchange under the symbol "CFG." As of February 1, 2019, our common stock was owned by two holders of record (including Cede & Co.) and approximately 183,000 beneficial shareholders whose shares were held in "street name" through a broker or bank. Information regarding the high and low sale prices of our common stock and cash dividends declared on such shares, as required by this item, is presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Quarterly Results of Operations" in Part II, Item 7, included in this Report. Information regarding restrictions on dividends, as required by this Item, is presented in Note 24 "Regulatory Matters" and Note 26 "Parent Company Financials" to our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, of this Report. Information relating to compensation plans under which our equity securities are authorized for issuance is presented in "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in Part III, Item 12, included in this Report.

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

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

	9/24/2014	9/30/2014	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
CFG	$100	$101	$108	$116	$161	$193	$140
S&P 500 Index	100	99	104	105	118	143	137
KBW BKX Index	100	98	103	103	133	157	129
Peer Regional Bank Average	$100	$99	$105	$105	$137	$159	$133

Issuer Purchase of Equity Securities

Details of the repurchases of our common stock during the fourth quarter 2018 are included in the following table:

Period	Total Number of Shares Repurchased[1]	Weighted-Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Dollar Amount of Shares That May Yet Be Purchased As Part of Publicly Announced Plans or Programs [1]
October 1, 2018 - October 31, 2018	6,214,965	$36.38	6,214,965	$393,897,709
November 1, 2018 - November 30, 2018	—	$—	—	$393,897,709
December 1, 2018 - December 31, 2018	2,031,256	$36.38	2,031,256	$320,000,000

[1] On June 28, 2018, the Company announced that its 2018 Capital Plan, submitted as part of the CCAR process and not objected to by the FRB, included share repurchases of CFG common stock of up to $1.02 billion for the four-quarter period ending with the second quarter of 2019. This share repurchase plan, which was approved by the Company's Board of Directors at the time of the announcement, allowed for share repurchases that may be executed in the open market or in privately negotiated transactions, including under Rule 10b5-1 plans. All shares repurchased by the Company during the fourth quarter were executed pursuant to an accelerated share repurchase transaction, which was completed by December 31, 2018. The timing and exact amount of future share repurchases will be subject to various factors, including the Company's capital position, financial performance and market conditions.

CITIZENS FINANCIAL GROUP, INC.
SELECTED CONSOLIDATED FINANCIAL DATA

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected Consolidated Statements of Operations data for the years ended December 31, 2018, 2017 and 2016 and the selected Consolidated Balance Sheet data as of December 31, 2018 and 2017 are derived from our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this Report. We derived the selected Consolidated Statements of Operations data for the years ended December 31, 2015 and 2014 and the selected Consolidated Balance Sheet data as of December 31, 2016, 2015, and 2014 from our prior audited Consolidated Financial Statements, not included herein. Our historical results are not necessarily indicative of the results expected for any future period.
The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and our audited Consolidated Financial Statements and the Notes thereto in Part II, Item 8 — Financial Statements and Supplementary Data, both included in this Report.

	For the Year Ended December 31,									
(in millions, except per-share and ratio data)	2018		2017		2016		2015		2014	
OPERATING DATA:										
Net interest income	$4,532		$4,173		$3,758		$3,402		$3,301	
Noninterest income	1,596		1,534		1,497		1,422		1,678	
Total revenue	6,128		5,707		5,255		4,824		4,979	
Provision for credit losses	326		321		369		302		319	
Noninterest expense	3,619		3,474		3,352		3,259		3,392	
Income before income tax expense	2,183		1,912		1,534		1,263		1,268	
Income tax expense[1]	462		260		489		423		403	
Net income	1,721		1,652		1,045		840		865	
Net income available to common stockholders	1,692		1,638		1,031		833		865	
Net income per average common share - basic [2]	3.54		3.26		1.97		1.55		1.55	
Net income per average common share - diluted [2]	3.52		3.25		1.97		1.55		1.55	
Dividends declared and paid per common share	0.98		0.64		0.46		0.40		1.43	
OTHER OPERATING DATA:										
Return on average common equity [3]	8.62	%	8.35	%	5.23	%	4.30	%	4.46	%
Return on average tangible common equity [3]	12.94		12.35		7.74		6.45		6.71	
Return on average total assets [3]	1.11		1.10		0.73		0.62		0.68	
Return on average total tangible assets [3]	1.16		1.15		0.76		0.65		0.71	
Efficiency ratio [3]	59.06		60.87		63.80		67.56		68.12	
Operating leverage [3] [4]	3.19		4.98		6.08		0.81		61.99	
Net interest margin [3]	3.19		3.02		2.86		2.75		2.83	
Effective income tax rate[1]	21.16		13.62		31.88		33.52		31.80	

[1] On December 22, 2017 President Trump signed the 2017 Tax Legislation which reduced the corporate tax rate from 35% to 21%.
[2] Earnings per share information reflects a 165,582-for-1 forward stock split effective on August 22, 2014.
[3] See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Introduction — Key Performance Metrics Used by Management and Non-GAAP Financial Measures" in Part II, Item 7, for definitions of our key performance metrics.
[4] "Operating leverage" represents the period-over-period percent change in total revenue, less the period-over-period percent change in noninterest expense. For the purpose of the 2014 calculation, 2013 total revenue was $4.7 billion and noninterest expense was $7.7 billion.

CITIZENS FINANCIAL GROUP, INC.
SELECTED CONSOLIDATED FINANCIAL DATA

	As of December 31,				
(in millions, except ratio data)	2018	2017	2016	2015	2014
BALANCE SHEET DATA:					
Total assets	$160,518	$152,336	$149,520	$138,208	$132,857
Loans held for sale, at fair value	1,219	497	583	325	256
Other loans held for sale	101	221	42	40	25
Loans and leases	116,660	110,617	107,669	99,042	93,410
Allowance for loan and lease losses	(1,242)	(1,236)	(1,236)	(1,216)	(1,195)
Total securities	25,075	25,733	25,610	24,075	24,704
Goodwill	6,923	6,887	6,876	6,876	6,876
Total liabilities	139,701	132,066	129,773	118,562	113,589
Total deposits	119,575	115,089	109,804	102,539	95,707
Federal funds purchased and securities sold under agreements to repurchase	1,156	815	1,148	802	4,276
Other short-term borrowed funds	1,653	1,856	3,211	2,630	6,253
Long-term borrowed funds	14,433	11,765	12,790	9,886	4,642
Total stockholders’ equity	20,817	20,270	19,747	19,646	19,268
OTHER BALANCE SHEET DATA:					
Asset Quality Ratios:					
Allowance for loan and lease losses as a % of total loans and leases	1.06 %	1.12 %	1.15 %	1.23 %	1.28 %
Allowance for loan and lease losses as a % of nonperforming loans and leases	156	142	118	115	109
Nonperforming loans and leases as a % of total loans and leases	0.68	0.79	0.97	1.07	1.18
Capital Ratios:(5)					
CET1 capital ratio (6)	10.6	11.2	11.2	11.7	12.4
Tier 1 capital ratio (7)	11.3	11.4	11.4	12.0	12.4
Total capital ratio (8)	13.3	13.9	14.0	15.3	15.8
Tier 1 leverage ratio (9)	10.0	10.0	9.9	10.5	10.6

(5) The capital ratios and associated components as of December 31, 2018, 2017, 2016 and 2015 are prepared using the U.S. Basel III Standardized approach. U.S. Basel III transitional rules for institutions applying the Standardized approach to calculating risk-weighted assets became effective January 1, 2015. The capital ratios and associated components as of December 31, 2014 are prepared using the U.S. Basel I approach. The December 31, 2017 capital ratios reflect the retrospective adoption of FASB ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — 2017 compared with 2016 — Income Tax Expense” for additional information.
(6) “Common equity tier 1 capital ratio” represents CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
(7) “Tier 1 capital ratio” is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
(8) “Total capital ratio” is total capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.
(9) “Tier 1 leverage ratio” is tier 1 capital divided by quarterly average total assets as defined under U.S. Basel III Standardized approach.

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

INTRODUCTION

Citizens Financial Group, Inc. is one of the nation's oldest and largest financial institutions with $160.5 billion in assets as of December 31, 2018. Our mission is to help our customers, colleagues and communities reach their potential. Headquartered in Providence, Rhode Island, we offer a broad range of retail and commercial banking products and services to individuals, small businesses, middle-market companies, large corporations and institutions. We help our customers reach their potential by listening to them and by understanding their needs in order to offer tailored advice, ideas and solutions. In Consumer Banking, we provide an integrated experience that includes mobile and online banking, a 24/7 customer contact center and the convenience of approximately 2,900 ATMs and approximately 1,100 branches in 11 states in the New England, Mid-Atlantic and Midwest regions. Consumer Banking products and services include a full range of banking, lending, savings, wealth management and small business offerings. In Commercial Banking, we offer corporate, institutional and not-for-profit clients a full range of wholesale banking products and services including lending and deposits, capital markets, treasury services, foreign exchange and interest rate products, and asset finance. More information is available at www.citizensbank.com.

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

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

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

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

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

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

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

This document contains non-GAAP financial measures denoted as “Underlying” or “Adjusted/Underlying” results. Underlying or Adjusted/Underlying results for any given reporting period exclude certain items that may occur in that period which Management does not consider indicative of the Company’s on-going financial performance. We believe these non-GAAP financial measures provide useful information to investors because they are used by Management to evaluate our operating performance and make day-to-day operating decisions. In addition, we believe our Underlying or Adjusted/Underlying results in any given reporting period reflect our on-going financial performance in that period and, accordingly, are useful to consider in addition to our GAAP financial results. We further believe the presentation of Underlying or Adjusted/Underlying results increases comparability of period-to-period results.

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

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

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

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

FINANCIAL PERFORMANCE

2018 compared with 2017 - Key Highlights

Full year 2018 net income of $1.7 billion increased $69 million, or 4%, from 2017, with earnings per diluted common share of $3.52, up 8% from $3.25 per diluted common share for 2017. 2018 ROTCE of 12.9% improved from 12.3% in 2017.

Full year 2018 results include $16 million after-tax, or $0.04 per diluted common share, of notable items compared with $340 million after-tax, or $0.67 per diluted common share, in 2017 as outlined in the tables below.

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

	Year Ended December 31, 2018				
(in millions)	Noninterest income	Noninterest expense	Credit-related costs	Income tax expense	Net Income
Reported results (GAAP)	$1,596	$3,619	$326	$462	$1,721
Less: Notable items					
Tax Legislation DTL adjustment	—	—	—	(29)	29
TOP efficiency initiatives and other actions	(1)	33	—	(8)	(26)
FAMC integration costs	(4)	21	—	(6)	(19)
Total notable items	($5)	$54	$—	($43)	($16)
Underlying results (non-GAAP)	$1,601	$3,565	$326	$505	$1,737

* Where there is a reference to "Underlying" results in a paragraph, all measures that follow these references are on the same basis when applicable. For more information on the computation of key performance metrics and non-GAAP financial measures, see "—Introduction — Key Performance Metrics Used by Management and Non-GAAP Financial Measures" and "—Key Performance Metrics, Non-GAAP Financial Measures and Reconciliations."

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

- Net income available to common stockholders of $1.7 billion increased $54 million, or 3%, compared to $1.6 billion in 2017.

  On an Underlying basis,* net income available to common stockholders increased 32% led by revenue growth of 8%, with a 9% increase in net interest income and a 5% increase in noninterest income.
- Total revenue of $6.1 billion increased $421 million, or 7%, from 2017, driven by strong net interest income and noninterest income growth:

Net interest income of $4.5 billion increased $359 million, or 9%, compared to $4.2 billion in 2017, driven by higher loan yields and 4% average loan growth.

Net interest margin of 3.19% increased 17 basis points, compared to 3.02% in 2017, reflecting the benefit of higher interest rates and continued mix shift towards higher-yielding assets, partially offset by higher deposit and other funding costs.

- Average loans and leases of $113.5 billion increased $4.2 billion, or 4%, from $109.3 billion in 2017, reflecting a $2.5 billion increase in commercial loans and leases and a $1.7 billion increase in retail loans.
- Average deposits of $115.9 billion increased $4.0 billion, or 4%, from $111.9 billion in 2017, reflecting strength in term, checking with interest, savings and demand deposits.

Noninterest income of $1.6 billion increased $62 million, or 4%, from 2017, driven by strength in mortgage banking fees, including the $57 million impact of the FAMC acquisition, as well as foreign exchange and interest rate products, trust and investment services fees, letter of credit and loan fees and card fees, partially offset by lower capital market fees and service charges and fees.

- On an Underlying basis,* noninterest income increased $73 million from $1.5 billion in 2017.

- Noninterest expense of $3.6 billion increased $145 million, or 4%, compared to $3.5 billion in 2017, reflecting higher salaries and employee benefits driven by higher revenue-based incentives and merit increases, higher outside services expense, including continued investments to drive growth, $60 million of FAMC costs, primarily in salaries and employee benefits, and $54 million of notable items. These increases were partially offset by lower other operating expenses.

On an Underlying basis,* noninterest expense increased 4% from 2017.

- Positive operating leverage was 3.2%, the efficiency ratio improved by 181 basis points to 59.1% compared to 2017, and ROTCE was 12.9%.

On an Underlying basis,* operating leverage was 3.3%, the efficiency ratio improved 183 basis points to 58.1% from 60.0% in 2017 and ROTCE increased 327 basis points to 13.1% from 9.8%.

- Return on average common equity was 8.6% compared to 8.3% in 2017.

On an Underlying basis,* return on average common equity of 8.7% improved 207 basis points from 6.6% in 2017.

- Earnings per diluted common share increased $0.27, or 8%, from 2017.

On an Underlying basis,* earnings per diluted common share increased $0.98, or 38%, from 2017.

- Tangible book value per common share improved 5% to $28.73 from 2017. Fully diluted average common shares outstanding decreased by 23.3 million shares from 2017.
- Provision for credit losses of $326 million increased $5 million, or 2%, from $321 million in 2017.

  On an Underlying basis,* total credit-related costs decreased $21 million, or 6%, from $347 million in 2017, driven primarily by the $26 million impact of 2017 aircraft lease impairments.

- Net charge-offs of $317 million increased $12 million, or 4%, from $305 million in 2017. The ALLL of $1.2 billion increased $6 million compared to December 31, 2017.

ALLL to total loans and leases of 1.06% decreased from 1.12% as of December 31, 2017.

The ALLL to nonperforming loans and leases ratio of 156% increased from 142% as of December 31, 2017.

- The effective income tax rate increased to 21.2% from 13.6% in 2017, primarily attributable to the revaluation of our deferred tax liability as a result of 2017 Tax Legislation.

On an Underlying basis,* the effective income tax rate decreased to 22.5% from 32.2% in 2017, primarily attributable to the reduction in the federal statutory tax rate from 35% to 21% under the 2017 Tax Legislation, partially offset by an increase in state and local income taxes and non-deductible FDIC premiums.

RESULTS OF OPERATIONS — 2018 compared with 2017

Net Income

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

	Year Ended December 31,			
(dollars in millions)	2018	2017	Change	Percent
Net interest income	$4,532	$4,173	$359	9 %
Noninterest income	1,596	1,534	62	4
Total revenue	6,128	5,707	421	7
Provision for credit losses	326	321	5	2
Noninterest expense	3,619	3,474	145	4
Income before income tax expense	2,183	1,912	271	14
Income tax expense	462	260	202	78
Net income	$1,721	$1,652	$69	4 %
Net income available to common stockholders	$1,692	$1,638	$54	3 %
Return on average tangible common equity	12.94 %	12.35 %	59 bps	

Return on Equity and Assets

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

	December 31,	
	2018	2017
Return on average total assets	1.11 %	1.10 %
Return on average common equity	8.62	8.35
Dividend payout ratio	28	20
Average equity to average assets ratio	13.02	13.25

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

Net Interest Income

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

(dollars in millions)	Year Ended December 31, 2018 Average Balances	Income/ Expense	Yields/ Rates	2017 Average Balances	Income/ Expense	Yields/ Rates	Change Average Balances	Yields/ Rates
Assets								
Interest-bearing cash and due from banks and deposits in banks	$1,579	$29	1.82 %	$1,807	$18	0.96 %	($228)	86 bps
Taxable investment securities	25,233	672	2.66	25,696	625	2.43	(463)	23
Non-taxable investment securities	6	—	2.60	7	—	2.60	(1)	—
Total investment securities	25,239	672	2.66	25,703	625	2.43	(464)	23
Commercial	39,363	1,621	4.06	37,631	1,334	3.50	1,732	56
Commercial real estate	12,299	557	4.47	11,178	402	3.55	1,121	92
Leases	3,038	82	2.71	3,437	86	2.50	(399)	21
Total commercial loans and leases	54,700	2,260	4.08	52,246	1,822	3.44	2,454	64
Residential mortgages	17,883	644	3.60	16,017	571	3.57	1,866	3
Home equity loans	1,215	72	5.91	1,610	91	5.68	(395)	23
Home equity lines of credit	13,043	592	4.54	13,706	514	3.75	(663)	79
Home equity loans serviced by others	463	34	7.36	642	46	7.09	(179)	27
Home equity lines of credit serviced by others	124	5	4.23	181	7	4.07	(57)	16
Automobile	12,555	461	3.68	13,491	442	3.27	(936)	41
Education	8,486	487	5.74	7,557	403	5.33	929	41
Credit cards	1,891	202	10.68	1,725	185	10.75	166	(7)
Other retail	3,113	253	8.09	2,117	168	7.94	996	15
Total retail loans	58,773	2,750	4.68	57,046	2,427	4.25	1,727	43
Total loans and leases (1)	113,473	5,010	4.39	109,292	4,249	3.87	4,181	52
Loans held for sale, at fair value	844	37	4.38	490	18	3.58	354	80
Other loans held for sale	164	10	6.18	190	10	5.36	(26)	82
Interest-earning assets	141,299	5,758	4.05	137,482	4,920	3.56	3,817	49
Allowance for loan and lease losses	(1,245)			(1,225)			(20)	
Goodwill	6,912			6,883			29	
Other noninterest-earning assets	7,587			6,813			774	
Total assets	$154,553			$149,953			$4,600	
Liabilities and Stockholders' Equity								
Checking with interest	$21,856	$138	0.63 %	$21,458	$79	0.37 %	$398	26 bps
Money market accounts	36,497	343	0.94	37,450	198	0.53	(953)	41
Regular savings	10,238	15	0.15	9,384	4	0.04	854	11
Term deposits	18,035	289	1.61	15,448	160	1.04	2,587	57
Total interest-bearing deposits	86,626	785	0.91	83,740	441	0.53	2,886	38
Federal funds purchased and securities sold under agreements to repurchase (2)	654	6	0.94	776	3	0.38	(122)	56
Other short-term borrowed funds	1,808	57	3.18	2,321	31	1.32	(513)	186
Long-term borrowed funds	13,455	378	2.79	12,479	272	2.17	976	62
Total borrowed funds	15,917	441	2.76	15,576	306	1.96	341	80
Total interest-bearing liabilities	102,543	1,226	1.19	99,316	747	0.75	3,227	44

Demand deposits	29,231			28,134			1,097	
Other liabilities	2,651			2,637			14	
Total liabilities	134,425			130,087			4,338	
Stockholders’ equity	20,128			19,866			262	
Total liabilities and stockholders’ equity	$154,553			$149,953			$4,600	
Interest rate spread			2.86 %			2.81 %		5
Net interest income		$4,532			$4,173			
Net interest margin			3.19 %			3.02 %		17 bps
Memo: Total deposits (interest-bearing and demand)	$115,857	$785	0.68 %	$111,874	$441	0.39 %	$3,983	29 bps

(1) Interest income and rates on loans include loan fees. Additionally, $836 million and $970 million of average nonaccrual loans were included in the average loan balances used to determine the average yield on loans for December 2018 and 2017, respectively.
(2) Balances are net of certain short-term receivables associated with reverse repurchase agreements, as applicable. Interest expense includes the full cost of the repurchase agreements and certain hedging costs. See “—Analysis of Financial Condition — Derivatives” for further information.

Net interest margin of 3.19% increased 17 basis points compared to 3.02% in the year ended 2017, driven by higher interest-earning asset yields given higher interest rates and continued mix shift toward higher-yielding assets. These results were partially offset by the impact of higher deposit and other funding costs. Average interest-earning asset yields of 4.05% increased 49 basis points from 3.56% for the year ended 2017, while average interest-bearing liability costs of 1.19% increased 44 basis points from 0.75% for the year ended 2017.

Average interest-earning assets of $141.3 billion increased $3.8 billion, or 3%, from the year ended 2017, driven by a $2.5 billion increase in average commercial loans and leases and a $1.7 billion increase in average retail loans, partially offset by a $692 million decrease in average investments and interest-bearing cash and due from banks and deposits in banks. Commercial loan growth was driven by commercial and commercial real estate. Retail loan growth was driven by residential mortgage, education and other retail.

Average deposits of $115.9 billion increased $4.0 billion from the year ended 2017, reflecting growth in term deposits, savings, demand deposits, and checking with interest. Total interest-bearing deposit costs of $785 million increased $344 million, or 78%, from $441 million in 2017, primarily due to rising rates.

Average total borrowed funds of $15.9 billion increased $341 million from the year ended 2017, reflecting an increase in long term borrowed funds, primarily senior debt, partially offset by a decrease in other short-term borrowed funds and a decrease in federal funds purchased and repurchase agreements. The total borrowed funds costs of 2.76% increased 80 basis points from 1.96% for the year ended 2017 due to an increase in long-term rates and a mix shift to long-term senior debt.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	Year Ended December 31, 2018 Versus 2017		
(in millions)	Average Volume	Average Rate	Net Change
Interest Income			
Interest-bearing cash and due from banks and deposits in banks	($2)	$13	$11
Taxable investment securities	(11)	58	47
Non-taxable investment securities	—	—	—
Total investment securities	(11)	58	47
Commercial	61	226	287
Commercial real estate	40	115	155
Leases	(10)	6	(4)
Total commercial loans and leases	91	347	438
Residential mortgages	67	6	73
Home equity loans	(22)	3	(19)
Home equity lines of credit	(25)	103	78
Home equity loans serviced by others	(13)	1	(12)
Home equity lines of credit serviced by others	(2)	—	(2)
Automobile	(31)	50	19
Education	50	34	84
Credit cards	18	(1)	17
Other retail	79	6	85
Total retail loans	121	202	323
Total loans and leases	212	549	761
Loans held for sale, at fair value	13	6	19
Other loans held for sale	(1)	1	—
Total interest income	$211	$627	$838
Interest Expense			
Checking with interest	$1	$58	$59
Money market accounts	(5)	150	145
Regular savings	—	11	11
Term deposits	27	102	129
Total interest-bearing deposits	23	321	344
Federal funds purchased and securities sold under agreements to repurchase	—	3	3
Other short-term borrowed funds	(7)	33	26
Long-term borrowed funds	21	85	106
Total borrowed funds	14	121	135
Total interest expense	37	442	479
Net interest income	$174	$185	$359

Noninterest Income

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

(in millions)	Year Ended December 31, 2018	2017	Change	Percent
Service charges and fees	$513	$516	($3)	(1%)
Card fees	244	233	11	5
Capital markets fees	179	194	(15)	(8)
Trust and investment services fees	171	158	13	8
Mortgage banking fees	152	108	44	41
Letter of credit and loan fees	128	121	7	6
Foreign exchange and interest rate products	126	109	17	16
Securities gains, net	19	11	8	73
Other income[1]	64	84	(20)	(24)
Noninterest income[2]	$1,596	$1,534	$62	4%

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

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

Noninterest income of $1.6 billion in 2018, increased $62 million, or 4%, compared to $1.5 billion in 2017, driven by strength in mortgage banking fees, reflecting the $57 million impact of FAMC, as well as foreign exchange and interest rate products, trust and investment services fees, card fees and letter of credit and loan fees, partially offset by lower capital market fees and service charges and fees. Excluding the impact of notable items and 2017 aircraft finance lease impairments, Underlying noninterest income* for the year ended 2018 increased $73 million, or 5%.

Provision for Credit Losses

Provision for credit losses of $326 million increased $5 million, or 2%, from $321 million in 2017, which reflected moderately lower reserve growth and partially offset slightly higher net charge-offs. Full year 2018 results reflected a $9 million reserve build, compared to a $16 million reserve build in 2017. Net charge-offs in 2018 of $317 million were $12 million higher compared to 2017. On an Underlying basis,* total credit-related costs decreased $21 million, primarily due to the impact of 2017 aircraft lease impairments.

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

Noninterest Expense

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

(in millions)	Year Ended December 31, 2018	2017	Change	Percent
Salaries and employee benefits[1]	$1,880	$1,766	$114	6%
Outside services	447	404	43	11
Occupancy	333	319	14	4
Equipment expense	275	263	12	5
Amortization of software	189	180	9	5
Other operating expense[1]	495	542	(47)	(9)

Noninterest expense	$3,619	$3,474	$145	4	%

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

Noninterest expense of $3.6 billion in 2018 increased $145 million, or 4%, compared to 2017, reflecting higher salaries and employee benefits driven by higher revenue-based incentives and merit increases, as well as higher outside services expense, including continued investments to drive growth. Full year 2018 results also reflected

$60 million of FAMC costs, primarily in salaries and employee benefits, and $54 million of FAMC integration costs and other notable items. These increases were partially offset by lower other operating expenses. Excluding FAMC integration costs, other notable items and the impact of 2017 aircraft operating lease impairments, Underlying noninterest expense* increased $146 million, or 4%.

Income Tax Expense

Income tax expense of $462 million increased $202 million, or 78%, from $260 million in 2017. The 2018 effective tax rate of 21.2% increased from 13.6% in 2017, primarily attributable to the revaluation of our deferred tax liability as a result of 2017 Tax Legislation. On an Underlying basis,* the effective income tax rate decreased to 22.5% from 32.2% in 2017, primarily attributable to the reduction in the federal statutory tax rate from 35% to 21% under the 2017 Tax Legislation, partially offset by an increase in state and local income taxes and non-deductible FDIC premiums.

At December 31, 2018, our net deferred tax liability of $573 million compared to a $571 million liability at December 31, 2017. The increase in the net deferred tax liability was primarily attributable to the tax effect of differences in the timing of deductions and income items for financial statement purposes versus taxable income purposes almost fully offset by the tax effect of the net unrealized losses on securities and derivatives arising during the period. For further discussion, see Note 22 "Income Taxes" to our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this Report.

Business Operating Segments

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

	As of and for the Year Ended December 31, 2018			
(dollars in millions)	Consumer Banking	Commercial Banking	Other [4]	Consolidated
Net interest income[1]	$3,064	$1,497	($29)	$4,532
Noninterest income	973	545	78	1,596
Total revenue	4,037	2,042	49	6,128
Noninterest expense	2,723	813	83	3,619
Profit before provision for credit losses	1,314	1,229	(34)	2,509
Provision for credit losses	289	26	11	326
Income (loss) before income tax expense (benefit)	1,025	1,203	(45)	2,183
Income tax expense (benefit)	258	276	(72)	462
Net income	$767	$927	$27	$1,721
Loans and leases (period-end) [2]	$62,250	$53,439	$2,291	$117,980
Average Balances:				
Total assets	$62,444	$52,362	$39,747	$154,553
Total loans and leases [2]	60,691	51,344	2,446	114,481
Deposits	77,542	30,704	7,611	115,857
Interest-earning assets	60,743	51,572	28,984	141,299
Key Performance Metrics:				
Net interest margin	5.04%	2.90%	NM	3.19%
Efficiency ratio	67.47	39.80	NM	59.06
Loans-to-deposits ratio (average balances)[3]	77.42	166.09	NM	97.94
Return on average total tangible assets	1.23	1.77	NM	1.16

[1] We periodically evaluate and refine our methodologies used to measure financial performance of our business operating segments. In first quarter 2018, we

enhanced our assumptions for the liquidity and deposit components within our FTP methodology which provides a credit for sources of funds and a charge for
the use of funds by each business operating segment. The enhancement largely provides increased credit for the stability of deposit composition, and an increased
charge for unused commitments under lending arrangements. Prior periods have not been adjusted for this change.

(2) Includes loans held for sale

(3) We revised our method of calculating the loans-to-deposits ratio in third quarter 2018 to exclude loans held for sale. Prior periods have been adjusted to conform with the current period presentation.

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

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

Our capital levels are evaluated and managed centrally; however, capital is allocated on a risk-adjusted basis considering economic and regulatory capital requirements to the business operating segments to support evaluation of business performance. Because funding and asset liability management is a central function, funds transfer-pricing ("FTP") methodologies are utilized to allocate a cost of funds used, or credit for the funds provided, to all business operating segment assets, liabilities and capital, respectively, using a matched-funding concept. The residual effect on net interest income of asset/liability management, including the residual net interest income related to the FTP process, is included in Other. We periodically evaluate and refine our methodologies used to measure financial performance of our business operating segments.

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

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

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

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

Consumer Banking

(dollars in millions)	As of and for the Year Ended December 31, 2018	2017	Change	Percent
Net interest income[1]	$3,064	$2,651	$413	16 %
Noninterest income	973	905	68	8
Total revenue	4,037	3,556	481	14
Noninterest expense	2,723	2,593	130	5
Profit before provision for credit losses	1,314	963	351	36
Provision for credit losses	289	265	24	9
Income before income tax expense	1,025	698	327	47
Income tax expense	258	246	12	5
Net income	$767	$452	$315	70
Loans (period-end) [2]	$62,250	$60,096	$2,154	4
Average Balances:				
Total assets	$62,444	$59,714	$2,730	5 %
Total loans and leases [2]	60,691	58,371	2,320	4
Deposits	77,542	74,873	2,669	4
Interest-earning assets	60,743	58,422	2,321	4
Key Performance Metrics:				
Net interest margin	5.04 %	4.54 %	50 bps	
Efficiency ratio	67.47	72.93	(546) bps	
Loans-to-deposits ratio (average balances)[3]	77.42	77.49	(7) bps	
Return on average total tangible assets	1.23	0.76	47 bps	

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

[2] Includes loans held for sale.

[3] We revised our method of calculating the loans-to-deposits ratio in third quarter 2018 to exclude loans held for sale. Prior periods have been adjusted to conform with the current period presentation.

Consumer Banking net interest income of $3.1 billion increased $413 million, or 16%, from 2017, driven by the impact of an FTP methodology enhancement as well as the benefit of a $2.3 billion increase in average loans led by residential mortgage, education and unsecured retail with higher loan yields that included the benefit of higher rates and continued mix shift towards higher yielding assets, partially offset by an increase in deposit costs. Noninterest income increased $68 million, or 8%, from 2017, driven by a $57 million increase in mortgage banking fees related to FAMC, and higher trust and investment services fees. Noninterest expense of $2.7 billion increased $130 million, or 5%, from 2017, driven by a $60 million increase related to FAMC, higher salaries and benefits, occupancy expense, outside services, and advertising. Provision for credit losses of $289 million increased $24 million, or 9%, from $265 million for the year ended 2017, reflecting balance growth and seasoning in unsecured retail and education.

Commercial Banking

(dollars in millions)	As of and for the Year Ended December 31, 2018	2017	Change	Percent
Net interest income[1]	$1,497	$1,411	$86	6 %
Noninterest income	545	538	7	1
Total revenue	2,042	1,949	93	5
Noninterest expense	813	772	41	5
Profit before provision for credit losses	1,229	1,177	52	4
Provision for credit losses	26	19	7	37
Income before income tax expense	1,203	1,158	45	4
Income tax expense	276	384	(108)	(28)
Net income	$927	$774	$153	20
Loans and leases (period-end) [2]	$53,439	$48,623	$4,816	10
Average Balances:				
Total assets	$52,362	$49,747	$2,615	5 %
Total loans and leases [2]	51,344	48,655	2,689	6
Deposits	30,704	30,005	699	2
Interest-earning assets	51,572	48,802	2,770	6
Key Performance Metrics:				
Net interest margin	2.90 %	2.89 %	1 bps	
Efficiency ratio	39.80	39.62	18 bps	
Average loans to average deposits ratio [3]	166.09	161.15	494 bps	
Return on average total tangible assets	1.77	1.56	21 bps	

(1) We periodically evaluate and refine our methodologies used to measure financial performance of our business operating segments. In first quarter 2018, we enhanced our assumptions for the liquidity and deposit components within our FTP methodology which provides a credit for sources of funds and a charge for the use of funds by each business operating segment. The enhancement largely provides increased credit for the stability of deposit composition, and an increased charge for unused commitments under lending arrangements. Prior periods have not been adjusted for this change.
(2) Includes loans held for sale.
(3) We revised our method of calculating the loans-to-deposits ratio in third quarter 2018 to exclude loans held for sale. Prior periods have been adjusted to conform with the current period presentation.

Commercial Banking net interest income of $1.5 billion increased $86 million, or 6%, from $1.4 billion for 2017, reflecting a $2.7 billion increase in average loans and leases and a $699 million increase in average deposits. Noninterest income of $545 million increased $7 million, or 1%, from $538 million for 2017, reflecting strength in foreign exchange fees, card fees and letter of credit and loan fees, partially offset by decreases in capital market fees. Noninterest expense of $813 million increased $41 million, or 5%, from $772 million for 2017, largely driven by higher salaries and benefits expense and outside services. Provision for credit losses of $26 million increased $7 million from 2017, driven by higher net charge-offs in 2018.

Other

(in millions)	As of and for the Year Ended December 31, 2018	2017	Change	Percent
Net interest income[1]	($29)	$111	($140)	(126%)
Noninterest income	78	91	(13)	(14)
Total revenue	49	202	(153)	(76)
Noninterest expense	83	109	(26)	(24)
Profit before provision for credit losses	(34)	93	(127)	(137)
Provision for credit losses	11	37	(26)	(70)
(Loss) income before income tax benefit	(45)	56	(101)	(180)
Income tax benefit	(72)	(370)	298	81
Net income	$27	$426	($399)	(94)
Loans and leases (period-end)[2]	$2,291	$2,616	($325)	(12)
Average Balances:				
Total assets	$39,747	$40,492	($745)	(2%)
Total loans and leases[2]	2,446	2,946	(500)	(17)
Deposits	7,611	6,996	615	9
Interest-earning assets	28,984	30,258	(1,274)	(4)

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

Other net income of $27 million decreased from $426 million for 2017, primarily driven by a $331 million benefit attributable to the revaluation of our deferred tax liability as a result of 2017 Tax Legislation. Other net interest income decreased $140 million reflecting an FTP methodology enhancement, higher funding costs, the declining benefit of swaps and non-core portfolio runoff. Results also reflected lower net charge-offs and a reserve build of $9 million for 2018 compared to a reserve build of $16 million for 2017.

RESULTS OF OPERATIONS — 2017 compared with 2016

Net Income

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

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

Return on Equity and Assets

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

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

Net Interest Income

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

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

Demand deposits	28,134			27,634			500	
Other liabilities	2,637			3,165			(528)	
Total liabilities	130,087			123,238			6,849	
Stockholders’ equity	19,866			19,945			(79)	
Total liabilities and stockholders’ equity	$149,953			$143,183			$6,770	
Interest rate spread			2.81 %			2.70 %		11
Net interest income		$4,173			$3,758			
Net interest margin			3.02 %			2.86 %		16 bps
Memo: Total deposits (interest-bearing and demand)	$111,874	$441	0.39 %	$105,447	$270	0.26 %	$6,427	13 bps

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

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

Net interest income of $4.2 billion in the year ended 2017 increased $415 million, or 11%, compared to $3.8 billion in the year ended 2016, reflecting 6% average loan growth and a 16 basis point improvement in net interest margin.
Average interest-earning assets of $137.5 billion increased $6.9 billion, or 5%, from the year ended 2016, driven by a $3.0 billion increase in average commercial loans and leases, a $2.9 billion increase in average retail loans, and a $928 million increase in average investments and interest-bearing cash and due from banks and deposits in banks. Commercial loan growth was driven by strength in commercial and commercial real estate. Retail loan growth was driven by strength in residential mortgages, education, and other retail balances.
Average deposits of $111.9 billion increased $6.4 billion from the year ended 2016, reflecting growth in all categories with particular strength in checking with interest and term deposits. Total interest-bearing deposit costs of $441 million increased $171, or 63%, from $270 million in 2016, primarily due to the impact of rising rates and a slight shift in mix toward commercial deposits.
Average total borrowed funds of $15.6 billion increased $1.0 billion from the year ended 2016, reflecting an increase in average long-term borrowed funds driven by issuances of senior notes. Total borrowed funds costs of $306 million increased $68 million from the year ended 2016. The total borrowed funds yield of 1.96% in the year ended 2017 increased 34 basis points from 1.62% in the year ended 2016 due to an increase in long-term rates and a mix shift to long-term senior debt.
Net interest margin of 3.02% increased 16 basis points compared to 2.86% in the year ended 2016, driven by improved loan yields reflecting both higher interest rates and balance sheet optimization initiatives. These results were partially offset by the impact of investment portfolio growth and higher deposit cost and funding costs. Average interest-earning asset yields of 3.56% increased 31 basis points from 3.25% in the year ended 2016, while average interest-bearing liability costs of 0.75% increased 20 basis points from 0.55% in the year ended 2016.

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

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

Noninterest Income

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

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

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

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

Provision for Credit Losses

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

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

Noninterest Expense

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

(dollars in millions)	Year Ended December 31, 2017	2016	Change	Percent
Salaries and employee benefits	$1,766	$1,714	$52	3%
Outside services	404	377	27	7
Occupancy	319	307	12	4
Equipment expense	263	263	—	—
Amortization of software	180	170	10	6

Other operating expense	542	521	21	4	
Noninterest expense	$3,474	$3,352	$122	4	%

Noninterest expense of $3.5 billion in 2017 increased $122 million, or 4%, compared to 2016. Salaries and benefits increased $52 million, or 3%, driven by merit increases and the impact of hiring associated with strategic growth initiatives. Outside services increased $27 million, or 7%, tied to consumer strategic growth initiatives and technology initiatives. Occupancy expense increased $12 million, or 4%, reflecting costs associated with our branch strategy, rent and maintenance. Other operating expense increased $21 million, or 4%. On an Adjusted/Underlying basis,* noninterest expense increased $103 million, or 3%, compared to 2016.

Income Tax Expense

Income tax expense was $260 million and $489 million in 2017 and 2016, respectively. This resulted in an effective tax rate of 13.6% and 31.9% in 2017 and 2016, respectively. The decrease in the effective income tax rate from 2016 to 2017 was primarily attributable to the revaluation of our deferred tax liability as a result of 2017 Tax Legislation. At December 31, 2017, we reported a net deferred tax liability of $571 million, compared to a $714 million liability at December 31, 2016. The decrease in the net deferred tax liability was primarily attributable to the revaluation of our deferred tax liability as a result of 2017 Tax Legislation.

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

Business Operating Segments

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

(dollars in millions)	As of and for the Year Ended December 31, 2017			
	Consumer Banking	Commercial Banking	Other [3]	Consolidated
Net interest income	$2,651	$1,411	$111	$4,173
Noninterest income	905	538	91	1,534
Total revenue	3,556	1,949	202	5,707
Noninterest expense	2,593	772	109	3,474
Profit before provision for credit losses	963	1,177	93	2,233
Provision for credit losses	265	19	37	321
Income before income tax expense (benefit)	698	1,158	56	1,912
Income tax expense (benefit)	246	384	(370)	260
Net income	$452	$774	$426	$1,652
Loans and leases and loans held for sale (year-end)	$60,096	$48,623	$2,616	$111,335
Average Balances:				
Total assets	$59,714	$49,747	$40,492	$149,953
Total loans and leases [1]	58,371	48,655	2,946	109,972
Deposits	74,873	30,005	6,996	111,874
Interest-earning assets	58,422	48,802	30,258	137,482
Key Performance Metrics:				
Net interest margin	4.54 %	2.89 %	NM	3.02 %
Efficiency ratio	72.93	39.62	NM	60.87
Loans-to-deposits ratio (average balances) [2]	77.49	161.15	NM	97.69
Return on average total tangible assets	0.76	1.56	NM	1.15

[1] Includes loans held for sale.

[2] We revised our method of calculating the loans-to-deposits ratio in third quarter 2018 to exclude loans held for sale. Prior periods have been adjusted to conform with the current period presentation.

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

We operate our business through two business operating segments: Consumer Banking and Commercial Banking. Segment results are derived from our business-line profitability reporting systems by specifically attributing managed assets, liabilities, capital and their related revenues, provision for credit losses and expenses and income tax expense. Residual assets, liabilities, capital and their related revenues, provision for credit losses and expenses are attributed to Other. For further information, see "—Results of Operations — 2018 compared with 2017 — Business Operating Segments."

Consumer Banking

	As of and for the Year Ended December 31,			
(dollars in millions)	2017	2016	Change	Percent
Net interest income	$2,651	$2,443	$208	9 %
Noninterest income	905	883	22	2
Total revenue	3,556	3,326	230	7
Noninterest expense	2,593	2,547	46	2
Profit before provision for credit losses	963	779	184	24
Provision for credit losses	265	243	22	9
Income before income tax expense	698	536	162	30
Income tax expense	246	191	55	29
Net income	$452	$345	$107	31
Loans (year-end) (1)	$60,096	$57,383	$2,713	5
Average Balances:				
Total assets	$59,714	$56,388	$3,326	6 %
Total loans (1)	58,371	55,052	3,319	6
Deposits	74,873	72,003	2,870	4
Interest-earning assets	58,422	55,101	3,321	6
Key Performance Metrics:				
Net interest margin	4.54 %	4.43 %	11 bps	
Efficiency ratio	72.93	76.57	(364) bps	
Loans-to-deposits ratio (average balances) (2)	77.49	75.97	152 bps	
Return on average total tangible assets	0.76	0.61	15 bps	

(1) Includes loans held for sale.
(2) We revised our method of calculating the loans-to-deposits ratio in third quarter 2018 to exclude loans held for sale. Prior periods have been adjusted to conform with the current period presentation.

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

Noninterest income increased $22 million, or 2%, from the year ended 2016, driven by an increase in card fees and investment and trust fees, partially offset by lower service charges and fees and mortgage banking fees. Noninterest expense of $2.6 billion increased $46 million, or 2%, from the year ended 2016, driven by higher outside services, FDIC expense, salaries and benefits, occupancy costs and advertising expense. These results were partially offset by lower credit collection costs and software amortization. Provision for credit losses of $265 million increased $22 million, or 9%, from $243 million in the year ended 2016, largely driven by higher net charge-offs in auto.

Commercial Banking

	As of and for the Year Ended December 31,			
(dollars in millions)	2017	2016	Change	Percent
Net interest income	$1,411	$1,288	$123	10 %
Noninterest income	538	466	72	15
Total revenue	1,949	1,754	195	11
Noninterest expense	772	741	31	4
Profit before provision for credit losses	1,177	1,013	164	16
Provision for credit losses	19	47	(28)	(60)
Income before income tax expense	1,158	966	192	20
Income tax expense	384	335	49	15
Net income	$774	$631	$143	23
Loans and leases and loans (year-end) (1)	$48,623	$47,629	$994	2
Average Balances:				
Total assets	$49,747	$47,159	$2,588	5 %
Total loans and leases (1)	48,655	45,903	2,752	6
Deposits	30,005	26,811	3,194	12
Interest-earning assets	48,802	45,978	2,824	6
Key Performance Metrics:				
Net interest margin	2.89 %	2.80 %	9 bps	
Efficiency ratio	39.62	42.26	(264) bps	
Loans-to-deposits ratio (average balances) (2)	161.15	170.81	(966) bps	
Return on average total tangible assets	1.56	1.34	22 bps	

(1) Includes loans held for sale.

(2) We revised our method of calculating the loans-to-deposits ratio in third quarter 2018 to exclude loans held for sale. Prior periods have been adjusted to conform with the current period presentation.

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

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

Provision for credit losses of $19 million decreased $28 million from the year ended 2016, driven by lower net charge-offs in 2016.

Other

(dollars in millions)	As of and for the Year Ended December 31, 2017	2016	Change	Percent
Net interest income	$111	$27	$84	NM
Noninterest income	91	148	(57)	(39)
Total revenue	202	175	27	15
Noninterest expense	109	64	45	70
Profit before provision for credit losses	93	111	(18)	(16)
Provision for credit losses	37	79	(42)	(53)
Income before income tax benefit	56	32	24	75
Income tax benefit	(370)	(37)	(333)	NM
Net income	$426	$69	$357	NM
Loans and leases (year-end) [1]	$2,616	$3,282	($666)	(20)
Average Balances:				
Total assets	$40,492	$39,636	$856	2 %
Total loans and leases [1]	2,946	2,999	(53)	(2)
Deposits	6,996	6,633	363	5
Interest-earning assets	30,258	29,457	801	3

[1] Includes loans held for sale.

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

ANALYSIS OF FINANCIAL CONDITION

Securities

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

(in millions)	December 31, 2018		December 31, 2017		December 31, 2016		Change in Fair Value from 2018-2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value		
Debt Securities Available for Sale, at Fair Value:(1)								
U.S. Treasury and other	$24	$24	$12	$12	$30	$30	$12	100%
State and political subdivisions	5	5	6	6	8	8	(1)	(17)
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	20,211	19,634	20,065	19,828	19,231	19,045	(194)	(1)
Other/non-agency	236	232	311	311	427	401	(79)	(25)
Total mortgage-backed securities	20,447	19,866	20,376	20,139	19,658	19,446	(273)	(1)
Total debt securities available for sale, at fair value	20,476	19,895	20,394	20,157	19,696	19,484	(262)	(1%)
Marketable equity securities	—	—	—	—	5	5	—	—
Other equity securities	—	—	—	—	12	12	—	—
Total equity securities	—	—	—	—	17	17	—	—
Total securities available for sale, at fair value	$20,476	$19,895	$20,394	$20,157	$19,713	$19,501	($262)	(1)%
Debt Securities Held to Maturity:(1)								
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	$3,425	$3,293	$3,853	$3,814	$4,126	$4,094	($521)	(14%)
Other/non-agency	740	748	832	854	945	964	(106)	(12)
Total mortgage-backed securities	$4,165	$4,041	$4,685	$4,668	$5,071	$5,058	($627)	(13%)
Total debt securities held to maturity	$4,165	$4,041	$4,685	$4,668	$5,071	$5,058	($627)	(13%)
Total securities available for sale and held to maturity	$24,641	$23,936	$25,079	$24,825	$24,784	$24,559	($889)	(4%)
Equity Securities:(1)								
Equity securities, at fair value	$181	$181	$169	$169	$96	$96	$12	7%
Equity securities, at cost	834	834	722	722	942	942	112	16
Total equity securities	$1,015	$1,015	$891	$891	$1,038	$1,038	$124	14%

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

As of December 31, 2018, the fair value of the AFS and HTM debt securities portfolio decreased $889 million to $23.9 billion, compared with $24.8 billion as of December 31, 2017, primarily driven by net sales of $438 million for liquidity management purposes.

As of December 31, 2018, the portfolio's average effective duration was 4.4 years compared with 3.9 years as of December 31, 2017, as higher long-term rates drove a decrease in securities prepayment speeds. We manage the securities portfolio duration and convexity risk through asset selection and securities structure, and maintain duration

levels within our risk appetite in the context of the broader Interest Rate Risk in the Banking Book framework and limits.
The securities portfolio includes high quality, highly liquid investments reflecting our ongoing commitment to maintaining appropriate contingent liquidity levels and pledging capacity. U.S. government-guaranteed notes and

government-sponsored entity-issued mortgage-backed securities represent 96% of the fair value of the debt securities portfolio holdings. The portfolio composition is also dominated by holdings backed by mortgages to facilitate our ability to pledge them to the FHLB for collateral purposes. For further discussion of the liquidity coverage ratios, see "Regulation and Supervision — Liquidity Requirements" in Part I, Item 1 — Business, included in this Report.

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

	As of December 31, 2018				
	Distribution of Maturities				
(dollars in millions)	Due in 1 Year or Less	Due After 1 Through 5 Years	Due After 5 Through 10 Years	Due After 10 Years	Total
Amortized cost:					
Debt securities available for sale:					
U.S. Treasury and other	$24	$—	$—	$—	$24
State and political subdivisions	—	—	—	5	5
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	281	1,540	18,390	20,211
Other/non-agency	1	10	—	225	236
Total debt securities available for sale	25	291	1,540	18,620	20,476
Debt securities held to maturity:					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	3,425	3,425
Other/non-agency	—	—	—	740	740
Total debt securities held to maturity	—	—	—	4,165	4,165
Total amortized cost of debt securities [1]	$25	$291	$1,540	$22,785	$24,641
Weighted-average yield [2]	2.31%	1.87 %	2.37 %	2.67 %	2.64 %

[1] As of December 31, 2018, no investments exceeded 10% of Stockholders' Equity.

[2] Yields on tax-exempt securities are not computed on a tax-equivalent basis.

Loans and Leases

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

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

	December 31,					Change from 2018-2017	
(in millions)	2018	2017	2016	2015	2014	$	%
Commercial	$40,857	$37,562	$37,274	$33,264	$31,431	$3,295	9 %
Commercial real estate	13,023	11,308	10,624	8,971	7,809	1,715	15
Leases	2,903	3,161	3,753	3,979	3,986	(258)	(8)
Total commercial loans and leases	56,783	52,031	51,651	46,214	43,226	4,752	9
Residential mortgages	18,978	17,045	15,115	13,318	11,832	1,933	11
Home equity loans	1,073	1,392	1,858	2,557	3,424	(319)	(23)
Home equity lines of credit	12,710	13,483	14,100	14,674	15,423	(773)	(6)
Home equity loans serviced by others	399	542	750	986	1,228	(143)	(26)
Home equity lines of credit serviced by others	104	149	219	389	550	(45)	(30)
Automobile	12,106	13,204	13,938	13,828	12,706	(1,098)	(8)
Education	8,900	8,134	6,610	4,359	2,256	766	9
Credit cards	1,991	1,848	1,691	1,634	1,693	143	8
Other retail	3,616	2,789	1,737	1,083	1,072	827	30
Total retail loans	59,877	58,586	56,018	52,828	50,184	1,291	2
Total loans and leases	$116,660	$110,617	$107,669	$99,042	$93,410	$6,043	5 %

Total loans and leases of $116.7 billion as of December 31, 2018, increased $6.0 billion, or 5%, from $110.6 billion as of December 31, 2017, reflecting growth in commercial and retail products. Total commercial loans and leases of $56.8 billion increased $4.8 billion, or 9%, from $52.0 billion as of December 31, 2017, reflecting increases in commercial and commercial real estate loans, partially offset by a decrease in leases. Total retail loans of $59.9 billion increased $1.3 billion, or 2%, from $58.6 billion as of December 31, 2017, largely driven by increases in residential mortgages, other retail, education and credit card loans, partially offset by lower home equity balances and run-off in auto loans.

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

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

	December 31, 2018			
(in millions)	Due in 1 Year or Less	Due After 1 Year Through 5 Years	Due After 5 Years	Total Loans and Leases
Commercial	$36,506	$2,757	$1,594	$40,857
Commercial real estate	12,720	128	175	13,023
Leases	585	1,854	464	2,903
Total commercial loans and leases	49,811	4,739	2,233	56,783
Residential mortgages	1,046	2,206	15,726	18,978
Home equity loans	18	329	726	1,073
Home equity lines of credit	12,470	61	179	12,710
Home equity loans serviced by others	1	374	24	399
Home equity lines of credit serviced by others	104	—	—	104
Automobile	155	7,532	4,419	12,106

Education	14	799	8,087	8,900
Credit cards	1,646	345	—	1,991
Other retail	501	2,297	818	3,616
Total retail loans	15,955	13,943	29,979	59,877
Total loans and leases	$65,766	$18,682	$32,212	$116,660
Loans and leases due after one year at fixed interest rates		$15,277	$21,362	$36,639
Loans and leases due after one year at variable interest rates		3,405	10,850	14,255

Loan and Lease Concentrations

At December 31, 2018, we did not identify any concentration of loans and leases exceeding 10% of total loans and leases that were not otherwise disclosed as a category of loans and leases. For further information on how we manage concentration exposures, see Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, of this Report.

Allowance for Credit Losses and Nonperforming Assets

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

Summary of Loan and Lease Loss Experience

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

	As of and for the Year Ended December 31,				
(dollars in millions)	2018	2017	2016	2015	2014
Allowance for Loan and Lease Losses — Beginning:					
Commercial	$541	$516	$376	$388	$361
Commercial real estate	121	99	111	61	78
Leases	23	48	23	23	24
Qualitative (1)	—	—	86	72	35
Total commercial loans and leases	685	663	596	544	498
Residential mortgages	44	55	46	63	104
Home equity loans	19	24	39	50	85
Home equity lines of credit	87	139	132	152	159
Home equity loans serviced by others	12	15	29	47	85
Home equity lines of credit serviced by others	4	4	3	11	18
Automobile	139	127	106	58	23
Education	120	102	96	93	83
Credit cards	72	74	60	68	72
Other retail	54	33	28	32	34
Qualitative (1)	—	—	81	77	60
Total retail loans	551	573	620	651	723
Total allowance for loan and lease losses — beginning	$1,236	$1,236	$1,216	$1,195	$1,221

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

	As of and for the Year Ended December 31,				
(dollars in millions)	2018	2017	2016	2015	2014
Gross Charge-offs:					
Commercial	($48)	($62)	($56)	($30)	($31)
Commercial real estate	(4)	(13)	(14)	(6)	(12)
Leases	—	—	(9)	—	—
Total commercial loans and leases	(52)	(75)	(79)	(36)	(43)
Residential mortgages	(8)	(11)	(21)	(22)	(36)
Home equity loans	(6)	(11)	(16)	(34)	(55)
Home equity lines of credit	(26)	(34)	(43)	(59)	(80)
Home equity loans serviced by others	(9)	(15)	(38)	(32)	(55)
Home equity lines of credit serviced by others	(4)	(5)	(12)	(14)	(12)
Automobile	(158)	(181)	(160)	(117)	(41)
Education	(68)	(59)	(52)	(51)	(54)
Credit cards	(68)	(61)	(58)	(59)	(64)
Other retail	(95)	(60)	(57)	(56)	(53)
Total retail loans	(442)	(437)	(457)	(444)	(450)
Total gross charge-offs	($494)	($512)	($536)	($480)	($493)
Gross Recoveries:					
Commercial	$15	$37	$21	$18	$35
Commercial real estate	4	3	12	31	23
Leases	—	—	—	—	—
Total commercial loans and leases	19	40	33	49	58
Residential mortgages	5	6	9	12	11
Home equity loans	11	13	18	11	24
Home equity lines of credit	16	16	18	18	15
Home equity loans serviced by others	15	18	19	17	21
Home equity lines of credit serviced by others	7	7	6	8	5
Automobile	67	73	65	49	20
Education	16	15	11	12	9
Credit cards	8	7	8	8	7
Other retail	13	12	14	12	—
Total retail loans	158	167	168	147	112
Total gross recoveries	$177	$207	$201	$196	$170
Net (Charge-offs)/Recoveries:					
Commercial	($33)	($25)	($35)	($12)	$4
Commercial real estate	—	(10)	(2)	25	11
Leases	—	—	(9)	—	—
Total commercial loans and leases	(33)	(35)	(46)	13	15
Residential mortgages	(3)	(5)	(12)	(10)	(25)
Home equity loans	5	2	2	(23)	(31)
Home equity lines of credit	(10)	(18)	(25)	(41)	(65)
Home equity loans serviced by others	6	3	(19)	(15)	(34)
Home equity lines of credit serviced by others	3	2	(6)	(6)	(7)
Automobile	(91)	(108)	(95)	(68)	(21)
Education	(52)	(44)	(41)	(39)	(45)

Credit cards	(60)	(54)	(50)	(51)	(57)
Other retail	(82)	(48)	(43)	(44)	(53)
Total retail loans	(284)	(270)	(289)	(297)	(338)
Total net charge-offs	($317)	($305)	($335)	($284)	($323)
Ratio of net charge-offs to average loans and leases	(0.28 %)	(0.28 %)	(0.32 %)	(0.30 %)	(0.36 %)

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	As of and for the Year Ended December 31,				
(dollars in millions)	2018	2017	2016	2015	2014
Provision for Loan and Lease Losses[2]:					
Commercial	$22	$50	$117	$—	$23
Commercial real estate	17	32	(17)	25	(28)
Leases	(1)	(25)	34	—	(1)
Qualitative [1]	—	—	(21)	14	37
Total commercial loans and leases	38	57	113	39	31
Residential mortgages	(5)	(6)	8	(7)	(16)
Home equity loans	(14)	(7)	(22)	12	(4)
Home equity lines of credit	8	(34)	9	21	58
Home equity loans serviced by others	(8)	(6)	(1)	(3)	(4)
Home equity lines of credit serviced by others	(4)	(2)	6	(2)	—
Automobile	79	120	99	116	56
Education	33	62	21	42	55
Credit cards	71	52	53	43	53
Other retail	125	69	42	40	51
Qualitative [1]	—	—	27	4	17
Total retail loans	285	248	242	266	266
Total provision for loan and lease losses	$323	$305	$355	$305	$297
Total Allowance for Loan and Lease Losses — Ending:					
Commercial	530	541	$458	$376	$388
Commercial real estate	138	121	92	111	61
Leases	22	23	48	23	23
Qualitative [1]	—	—	65	86	72
Total commercial loans and leases	690	685	663	596	544
Residential mortgages	36	44	42	46	63
Home equity loans	10	19	19	39	50
Home equity lines of credit	85	87	116	132	152
Home equity loans serviced by others	10	12	9	29	47
Home equity lines of credit serviced by others	3	4	3	3	11
Automobile	127	139	110	106	58
Education	101	120	76	96	93
Credit cards	83	72	63	60	68
Other retail	97	54	27	28	32
Qualitative [1]	—	—	108	81	77
Total retail loans	552	551	573	620	651
Total allowance for loan and lease losses — ending	$1,242	$1,236	$1,236	$1,216	$1,195
Reserve for Unfunded Lending Commitments — Beginning	$88	$72	$58	$61	$39
Provision for unfunded lending commitments	3	16	14	(3)	22
Reserve for unfunded lending commitments — ending	$91	$88	$72	$58	$61
Total Allowance for Credit Losses — Ending	$1,333	$1,324	$1,308	$1,274	$1,256

[1] As discussed in Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, of this Report, as of December 31, 2017, we enhanced the method for assessing various qualitative risks, factors and events that may not be measured in the modeled results. The qualitative allowance is presented within each loan class

beginning in 2017, and prior periods have not been reclassified to conform to the current presentation.
(2) During December 2016, changes to the incurred loss period were reflected as components of the provision for retail property secured products.

Allocation of the Allowance for Loan and Lease Losses

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

	December 31,									
(dollars in millions)	2018		2017		2016		2015		2014	
Commercial	$530	35 %	$541	34 %	$458	35 %	$376	34 %	$388	34 %
Commercial real estate	138	11	121	10	92	10	111	9	61	8
Leases	22	3	23	3	48	3	23	4	23	4
Qualitative(1)	—	N/A	—	N/A	65	N/A	86	N/A	72	N/A
Total commercial loans and leases	690	49	685	47	663	48	596	47	544	46
Residential mortgages	36	16	44	15	42	14	46	13	63	13
Home equity loans	10	1	19	1	19	2	39	3	50	4
Home equity lines of credit	85	11	87	12	116	13	132	15	152	16
Home equity loans serviced by others	10	—	12	1	9	1	29	1	47	1
Home equity lines of credit serviced by others	3	—	4	—	3	—	3	—	11	1
Automobile	127	10	139	12	110	13	106	14	58	14
Education	101	8	120	7	76	6	96	4	93	2
Credit cards	83	2	72	2	63	1	60	2	68	2
Other retail	97	3	54	3	27	2	28	1	32	1
Qualitative(1)	—	N/A	—	N/A	108	N/A	81	N/A	77	N/A
Total retail loans	552	51	551	53	573	52	620	53	651	54
Total loans and leases	$1,242	100 %	$1,236	100 %	$1,236	100 %	$1,216	100 %	$1,195	100 %

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

The allowance for credit losses totaled $1.3 billion at December 31, 2018 and 2017, respectively. The ALLL represented 1.06% of total loans and leases and 156% of nonperforming loans and leases as of December 31, 2018 compared with 1.12% and 142%, respectively, as of December 31, 2017.

Overall credit quality remained strong, reflecting growth in higher-quality, lower-risk retail loans and a broadly stable risk profile in the commercial loans and leases portfolios. Nonperforming loans and leases of $797 million as of December 31, 2018 decreased $74 million from December 31, 2017, driven by a $64 million decrease in commercial nonperforming loans, mainly due to repayments and returns to accrual status, and a $10 million decrease in retail nonperforming loans, largely in home equity. Net charge-offs of $317 million increased $12 million, or 4%, from $305 million in 2017. Net charge-offs as a percentage of total average loans of 0.28% remained stable compared to 2017.

Risk Elements

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

	December 31,				
(in millions)	2018	2017	2016	2015	2014
Nonaccrual loans and leases					
Commercial	$194	$238	$322	$70	$113
Commercial real estate	7	27	50	77	50
Leases	—	—	15	—	—
Total commercial loans and leases	201	265	387	147	163
Residential mortgages	136	128	144	331	345
Home equity loans	50	72	98	135	203
Home equity lines of credit	231	233	243	272	257
Home equity loans serviced by others	17	25	32	38	47
Home equity lines of credit serviced by others	15	18	33	32	25
Automobile	81	70	50	42	21
Education	38	38	38	35	11
Credit cards	20	17	16	16	16
Other retail	8	5	4	3	5
Total retail loans	596	606	658	904	930
Total nonaccrual loans and leases	$797	$871	$1,045	$1,051	$1,093
Loans and leases that are accruing and 90 days or more delinquent					
Commercial	1	5	2	1	1
Commercial real estate	—	3	—	—	—
Leases	—	—	—	—	—
Total commercial loans and leases	1	8	2	1	1
Residential mortgages	15	16	18	—	—
Home equity loans	—	—	—	—	—
Home equity lines of credit	—	—	—	—	—
Home equity loans serviced by others	—	—	—	—	—
Home equity lines of credit serviced by others	—	—	—	—	—
Automobile	—	—	—	—	—
Education	2	3	5	6	6
Credit cards	—	—	—	—	1
Other retail	7	5	1	2	—
Total retail loans	24	24	24	8	7
Total accruing and 90 days or more delinquent	25	32	26	9	8
Total	$822	$903	$1,071	$1,060	$1,101
Troubled debt restructurings (1)	$723	$629	$633	$909	$955

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

Potential Problem Loans and Leases

At December 31, 2018, we did not identify any potential problem loans or leases within the portfolio that were not already included in "—Risk Elements." Potential problem loans or leases consist of loans and leases where information about a borrower's possible credit problems cause management to have serious doubts as to the ability of such borrowers to comply with the present repayment terms.

Commercial Loan Asset Quality

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

For commercial loans and leases, we utilize 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 or potential weakness that indicate an increased probability of future loss. "Criticized" loans are grouped into three categories, "special mention," "substandard" and "doubtful." Special mention loans have potential weaknesses that, if left uncorrected, may result in deterioration of our credit position at some future date. Substandard loans are inadequately protected loans; these loans have well-defined weaknesses that could hinder normal repayment or collection of the debt. Doubtful loans have the same weaknesses as substandard, with the added characteristics that the possibility of loss is high and collection of the full amount of the loan is improbable. These credit quality indicators for commercial loans are continually updated and monitored. See Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, of this Report.

Nonperforming commercial loans and leases decreased $64 million to $201 million as of December 31, 2018 from $265 million as of December 31, 2017, largely tied to a reduction in nonperforming commodities-related credits. As of December 31, 2018, total commercial nonperforming loans were 0.4% of the commercial loan portfolio compared to 0.5% as of December 31, 2017. Total 2018 commercial loan and lease portfolio net charge-offs of $33 million remained stable with $35 million in 2017.

The recorded investment in commercial loans and leases based on regulatory classification ratings is presented below:

	December 31, 2018				
		Criticized			
(in millions)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$38,600	$1,231	$828	$198	$40,857
Commercial real estate	12,523	412	82	6	13,023
Leases	2,823	39	41	—	2,903
Total commercial loans and leases	$53,946	$1,682	$951	$204	$56,783

	December 31, 2017				
		Criticized			
(in millions)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$35,430	$1,143	$785	$204	$37,562
Commercial real estate	10,706	500	74	28	11,308
Leases	3,069	73	19	—	3,161
Total commercial loans and leases	$49,205	$1,716	$878	$232	$52,031

Total commercial criticized loans and leases of $2.8 billion as of December 31, 2018 were stable compared with December 31, 2017. Commercial criticized loans and leases over total commercial loans and leases of 5.0% at December 31, 2018 improved from 5.4% at December 31, 2017, driven by loan growth. Commercial criticized balances of $2.3 billion, or 5.5% of the commercial loan portfolio as of December 31, 2018, increased from $2.1 billion, or 5.7%, as of December 31, 2017. Commercial real estate criticized balances of $500 million, or 3.8% of the commercial real estate portfolio, decreased from $602 million, or 5.3%, as of December 31, 2017. Commercial criticized loans represented 80% of total criticized loans as of December 31, 2018 compared to 75% as of December 31, 2017. Commercial real estate accounted for 18% of total criticized loans as of December 31, 2018 compared to 21% as of December 31, 2017.

Retail Loan Asset Quality

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

The following tables present asset quality metrics for the retail loan portfolio:

	December 31, 2018	December 31, 2017
Average refreshed FICO for total portfolio	763	762
CLTV ratio for secured real estate[1]	58	59
Nonperforming retail loans as a percentage of total retail	1.00 %	1.03 %

[1] The real estate secured portfolio CLTV is calculated as the mortgage and second lien loan balance divided by the most recently available value of the property.

	Year Ended December 31,			
(dollars in millions)	2018	2017	Change	Percent
Net charge-offs	$284	$270	$14	5 %
Annualized net charge-off rate	0.48 %	0.47 %	1 bps	

Retail asset quality remains stable with a net charge-off rate of 0.48% for the year ended December 31, 2018, an increase of one basis point from the year ended December 31, 2017, driven by growth in credit cards as well as continued expected seasoning in our personal loan and education refinance loan portfolios.

HELOC Payment Shock

Payment shock in the HELOC portfolio occurs when the 10-year interest only draw period ends, and the payment converts to a fully amortizing principal and interest payment. We monitor the risk associated with the payment increase and have a comprehensive program designed to provide heightened customer outreach to inform, educate and assist customers through the reset process as well as to offer alternative financing and forbearance options. Results of this program indicate that our efforts to assist customers at risk of default have successfully reduced delinquency and charge-off rates compared to our original expectations.

The table below outlines the population expected to mature between January 1, 2019 and December 31, 2021, compared to the overall HELOC population, reflecting a similar credit profile for each population:

(dollars in millions)	Balance	% Secured by First Lien	FICO	LTV
Total HELOCs as of December 31, 2018	$12,814	51 %	766	57%
HELOCs scheduled to reset 1/1/19 - 12/31/21	1,598	54	758	51

The performance of our historical vintages that have entered repayment remains stable. The following table presents the asset quality metrics as of December 31, 2018, for the HELOCs reset at each year ending:

(dollars in millions)	2014/2015	2016	2017
Balance reset	$1,688	$738	$730
Percent refinanced, paid off, or current	93 %	95 %	94 %
Percent past due	3	3	4
Percent charged-off	4	2	2

Factors that affect our future expectations for continued relatively low charge-off risk in the face of rising interest rates for the portion of our HELOC portfolio subject to reset in future periods include a relatively high level of first lien collateral positions, improved loan-to-value ratios resulting from continued home price appreciation, relatively stable portfolio credit score profiles and continued robust loss mitigation efforts.

Troubled Debt Restructurings

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

As of December 31, 2018, $723 million of retail loans were classified as TDRs, compared with $761 million as of December 31, 2017. The decrease was in part, attributable to both loan repayments and the increasing amortization of balances as more seasoned accounts age. As of December 31, 2018, $181 million of retail TDRs were in nonaccrual status with 49% current on payments, stable compared with $211 million in nonaccrual status with 51% current on payments at December 31, 2017. TDRs generally return to accrual status once repayment capacity and appropriate payment history can be established. TDRs are individually evaluated for impairment and loans, once classified as TDRs, remain classified as TDRs until paid off, sold or refinanced at market terms.

For additional information regarding TDRs, see "—Critical Accounting Estimates — Allowance for Credit Losses" and Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, of this Report.

The following tables present retail TDRs by loan class, including delinquency status for accruing TDRs and TDRs in nonaccrual:

	December 31, 2018				
		As a % of Accruing Retail TDRs			
(dollars in millions)	Accruing	30-89 Days Past Due	90+ Days Past Due	Nonaccruing	Total
Residential mortgages	$111	3.0%	1.6%	$44	$155
Home equity loans	85	0.7	—	25	110
Home equity lines of credit	138	0.9	—	64	202
Home equity loans serviced by others	31	0.3	—	10	41
Home equity lines of credit serviced by others	3	—	—	5	8
Automobile	13	0.2	—	10	23
Education	131	0.9	0.3	22	153
Credit cards	24	0.4	—	1	25
Other retail	6	—	—	—	6
Total	$542	6.4%	1.9%	$181	$723

	December 31, 2017				
		As a % of Accruing Retail TDRs			
(dollars in millions)	Accruing	30-89 Days Past Due	90+ Days Past Due	Nonaccruing	Total
Residential mortgages	$98	2.7%	2.0%	$53	$151
Home equity loans	86	0.7	—	35	121
Home equity lines of credit	128	1.1	—	69	197
Home equity loans serviced by others	38	0.4	—	13	51
Home equity lines of credit serviced by others	4	—	—	5	9
Automobile	12	0.2	—	11	23

Education	152	1.3	0.5	23	175
Credit cards	24	0.4	—	1	25
Other retail	8	—	—	1	9
Total	$550	6.7 %	2.5 %	$211	$761

Impact of Nonperforming Loans and Leases on Interest Income

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

(in millions)	For the Year Ended December 31, 2018
Gross amount of interest income that would have been recorded [1]	$125
Interest income actually recognized	7
Total interest income foregone	$118

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

Cross-Border Outstandings

Cross-border outstandings can include loans, receivables, interest-bearing deposits with other banks, other interest-bearing investments and other monetary assets that are denominated in either dollars or other non-local currency. As of December 31, 2018, 2017 and 2016, there were no aggregate cross-border outstandings from borrowers or counterparties in any country that exceeded 1%, or were between 0.75% and 1% of consolidated total assets.

Non-Core Assets

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

	December 31,			
(in millions)	2018	2017	Change	Percent
Commercial	$72	$56	$16	29 %
Commercial real estate	14	19	(5)	(26)
Leases	670	752	(82)	(11)
Total commercial loans and leases	756	827	(71)	(9)
Residential mortgages	110	136	(26)	(19)
Home equity loans	31	40	(9)	(23)
Home equity lines of credit	21	30	(9)	(30)
Home equity loans serviced by others	399	542	(143)	(26)
Home equity lines of credit serviced by others	104	149	(45)	(30)
Education	210	254	(44)	(17)
Total retail loans	875	1,151	(276)	(24)
Total non-core loans	1,631	1,978	(347)	(18)
Other assets	96	112	(16)	(14)
Total non-core assets	$1,727	$2,090	($363)	(17 %)

Non-core assets are primarily liquidating loan and lease portfolios inconsistent with our strategic priorities, generally as a result of geographic location, industry, product type or risk level and are included in Other. Non-core assets of $1.7 billion as of December 31, 2018 decreased $363 million, or 17%, from December 31, 2017.

Retail non-core loan balances of $875 million decreased $276 million, or 24%, compared to December 31, 2017. The largest component of our retail non-core portfolio is the home equity SBO portfolio, a $503 million portfolio of home equity loans and lines of credit purchased between 2003 and 2007 that were initially serviced by other institutions, but now about 45% is serviced internally. The credit profile of this portfolio is stable, and losses have remained in a net recovery position in 2017 and 2018.

Commercial non-core loan and lease balances of $756 million decreased $71 million, or 9%, from $827 million as of December 31, 2017. The largest component of our commercial non-core portfolio is an aircraft-related loan and lease portfolio tied to legacy-Royal Bank of Scotland Group plc aircraft leasing borrowers, which totaled $670 million and $752 million as of December 31, 2018 and 2017, respectively.

Deposits

The table below presents the major components of our deposits:

	December 31,			
(in millions)	2018	2017	Change	Percent
Demand	$29,458	$29,279	$179	1 %
Checking with interest	23,067	22,229	838	4

Regular savings	12,007	9,518	2,489	26
Money market accounts	35,701	37,454	(1,753)	(5)
Term deposits	19,342	16,609	2,733	16
Total deposits	$119,575	$115,089	$4,486	4 %

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Total deposits as of December 31, 2018, increased $4.5 billion, or 4%, to $119.6 billion compared to $115.1 billion and reflected particular strength in regular savings, term deposits and checking with interest products.

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

	For the Year Ended December 31,					
	2018		2017		2016	
(dollars in millions)	Average Balances	Yields/ Rates	Average Balances	Yields/ Rates	Average Balances	Yields/ Rates
Noninterest-bearing demand deposits [1]	$29,231	—	$28,134	—	$27,634	—
Checking with interest	$21,856	0.63 %	$21,458	0.37 %	$19,320	0.18 %
Money market accounts	36,497	0.94	37,450	0.53	37,106	0.36
Regular savings	10,238	0.15	9,384	0.04	8,691	0.04
Term deposits	18,035	1.61	15,448	1.04	12,696	0.78
Total interest-bearing deposits [1]	$86,626	0.91 %	$83,740	0.53 %	$77,813	0.35 %

[1] The aggregate amount of deposits by foreign depositors in domestic offices was $1.2 billion, $1.0 billion and $1.4 billion as of December 31, 2018, 2017 and 2016.

Borrowed Funds

Short-term borrowed funds

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

	December 31,			
(in millions)	2018	2017	Change	Percent
Federal funds purchased	$820	$460	$360	78 %
Securities sold under agreements to repurchase	336	355	(19)	(5)
Other short-term borrowed funds[1]	1,653	1,856	(203)	(11)
Total short-term borrowed funds	$2,809	$2,671	$138	5 %

[1] December 31, 2018 includes $1.5 billion of debt issued under CBNA’s Global Bank Note Program maturing within one year, with unamortized deferred issuance costs and/or discounts of ($1) million and other basis adjustments of ($8) million. December 31, 2017 includes $750 million of debt issued under CBNA’s Global Bank Note Program maturing within one year, with unamortized deferred issuance costs and/or discounts of ($1) million and other basis adjustments of ($4) million.

The net decrease in other short-term borrowed funds of $203 million resulted from a reduction of $951 million in short-term FHLB advances partially offset by an increase of $746 million in senior bank debt, issued under CBNA’s Global Note Program, with a remaining maturity within one year.

Our advances, lines of credit, and letters of credit from the FHLB are collateralized by pledged mortgages and securities at least sufficient to satisfy the collateral maintenance level established by the FHLB. The utilized borrowing capacity for FHLB advances and letters of credit was $13.0 billion and $9.4 billion at December 31, 2018 and 2017, respectively, and our available FHLB borrowing capacity was $4.8 billion and $8.0 billion at December 31, 2018 and 2017, respectively. We can also borrow from the FRB discount window to meet short-term liquidity requirements. Collateral, including certain loans, is pledged to support this borrowing capacity. At December 31, 2018, our unused secured borrowing capacity was approximately $36.2 billion, which included unencumbered securities, FHLB borrowing capacity, and FRB discount window capacity.

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

(dollars in millions)	As of and for the Year Ended December 31, 2018	2017	2016
Weighted-average interest rate at year-end: [1]			
Federal funds purchased and securities sold under agreements to repurchase	1.72 %	0.74 %	0.26 %
Other short-term borrowed funds	2.50	1.72	0.94
Maximum amount outstanding at any month-end during the year:			
Federal funds purchased and securities sold under agreements to repurchase [2]	$1,282	$1,174	$1,522
Other short-term borrowed funds	2,509	3,508	5,461
Average amount outstanding during the year:			
Federal funds purchased and securities sold under agreements to repurchase [2]	$654	$776	$947
Other short-term borrowed funds	1,808	2,321	3,207
Weighted-average interest rate during the year: [1]			
Federal funds purchased and securities sold under agreements to repurchase	0.92 %	0.36 %	0.09 %
Other short-term borrowed funds	2.42	1.32	0.64

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

Long-term borrowed funds

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

(in millions)	December 31, 2018	2017
Parent Company:		
2.375% fixed-rate senior unsecured debt, due 2021	$349	$349
4.150% fixed-rate subordinated debt, due 2022	348	348
5.158% fixed-to-floating rate callable subordinated debt, due 2023 [1]	—	333
3.750% fixed-rate subordinated debt, due 2024	250	250
4.023% fixed-rate subordinated debt, due 2024	42	42
4.350% fixed-rate subordinated debt, due 2025	249	249
4.300% fixed-rate subordinated debt, due 2025	749	749
Banking Subsidiaries:		
2.450% senior unsecured notes, due 2019 [2][3]	—	743
2.500% senior unsecured notes, due 2019 [2][3]	—	741
2.250% senior unsecured notes, due 2020 [2]	691	692
3.278% floating-rate senior unsecured notes, due 2020 [2] [4]	300	299
3.247% floating-rate senior unsecured notes, due 2020 [2] [4]	250	249
2.200% senior unsecured notes, due 2020 [2]	499	498
2.250% senior unsecured notes, due 2020 [2]	738	742
2.550% senior unsecured notes, due 2021 [2]	964	964
3.487% floating-rate senior unsecured notes, due 2022 [2] [4]	249	249
2.650% senior unsecured notes, due 2022 [2]	487	491
3.700% senior unsecured notes, due 2023 [2]	502	—
3.753% floating-rate senior unsecured notes, due 2023 [2] [4]	249	—
Federal Home Loan Bank advances, 2.725% weighted average rate, due through 2038	7,508	3,761
Other	9	16
Total long-term borrowed funds	$14,433	$11,765

(1) Redeemed on June 29, 2018.
(2) Issued under CBNA's Global Bank Note Program.
(3) Reclassified to short-term borrowed funds.
(4) Rate disclosed reflects the floating rate as of December 31, 2018.

Long-term borrowed funds of $14.4 billion as of December 31, 2018 increased $2.7 billion from December 31, 2017, reflecting an increase of $3.7 billion in long-term FHLB borrowings, partially offset by the redemption of

$333 million of Parent Company subordinated debt and a net decrease of $739 million in Banking Subsidiaries senior unsecured notes with a remaining maturity greater than one year.

The Parent Company's long-term borrowed funds as of December 31, 2018 and 2017 included principal balances of $2.0 billion and $2.3 billion and unamortized deferred issuance costs and/or discounts of ($5) million for each period. The banking subsidiaries' long-term borrowed funds as of December 31, 2018 and 2017 include principal balances of $12.5 billion and $9.5 billion, respectively, with unamortized deferred issuance costs and/or discounts of ($14) million and ($19) million, respectively, and hedging basis adjustments of ($58) million and ($63) million, respectively. See Note 13 "Derivatives" to our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, of this Report for further information about our hedging of certain long-term borrowed funds.

QUARTERLY RESULTS OF OPERATIONS

The following table presents unaudited quarterly Consolidated Statements of Operations data and Consolidated Balance Sheet data as of and for the four quarters of 2018 and 2017, respectively. We have prepared the Consolidated Statements of Operations data and Balance Sheet data on the same basis as our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this Report and, in the opinion of management, each Consolidated Statement of Operations and Balance Sheet includes all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the results of operations and balance sheet data as of and for these periods. This information should be read in conjunction with our Consolidated Financial Statements and the related notes, of this Report.

Supplementary Summary Consolidated Financial and Other Data (unaudited)

	For the Three Months Ended						
(dollars in millions, except per share amounts)	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 201
Operating Data:							
Net interest income	$1,172	$1,148	$1,121	$1,091	$1,080	$1,062	$1,0
Noninterest income (1) (6) (7)	421	416	388	371	404	381	370
Total revenue	1,593	1,564	1,509	1,462	1,484	1,443	1,39
Provision for credit losses	85	78	85	78	83	72	70
Noninterest expense (2) (5) (6) (7)	951	910	875	883	898	858	864
Income before income tax expense (benefit)	557	576	549	501	503	513	462
Income tax expense (benefit) (3) (5) (6) (8)	92	133	124	113	(163)	165	144
Net income (4) (5) (6) (8)	$465	$443	$425	$388	$666	$348	$31
Net income available to common stockholders (4) (5) (6) (8)	$450	$436	$425	$381	$666	$341	$31
Net income per average common share- basic (6) (8)	$0.96	$0.92	$0.88	$0.78	$1.35	$0.68	$0.6
Net income per average common share- diluted (6) (8)	0.96	0.91	0.88	0.78	1.35	0.68	0.63
Other Operating Data:							
Return on average common equity (9)	9.16 %	8.82 %	8.65 %	7.83 %	13.46 %	6.87 %	6.48
Return on average tangible common equity (9)	13.85	13.29	12.93	11.71	19.92	10.13	9.57
Return on average total assets (9)	1.17	1.13	1.11	1.04	1.75	0.92	0.85
Return on average total tangible assets (9)	1.22	1.18	1.16	1.08	1.83	0.96	0.89
Efficiency ratio (9)	59.69	58.20	57.95	60.43	60.52	59.41	61.9
Net interest margin (9)	3.22	3.19	3.18	3.16	3.08	3.05	2.97
Share Data:							
Cash dividends declared and paid per common share	$0.27	$0.27	$0.22	$0.22	$0.18	$0.18	$0.1
Dividend payout ratio	28 %	29 %	25 %	28 %	13 %	26 %	22

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

(dollars in millions)	As of December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Balance Sheet Data:								
Total assets	$160,518	$158,598	$155,431	$153,453	$152,336	$151,356	$151,407	$150,285
Loans and leases (10)	116,660	114,720	113,407	111,425	110,617	110,151	109,046	108,111
Allowance for loan and lease losses	1,242	1,242	1,253	1,246	1,236	1,224	1,219	1,224
Total securities	25,075	25,485	25,513	25,433	25,733	25,742	25,115	25,996
Goodwill	6,923	6,946	6,887	6,887	6,887	6,887	6,887	6,876
Total liabilities	139,701	138,322	134,964	133,394	132,066	131,247	131,343	130,438
Deposits	119,575	117,075	117,073	115,730	115,089	113,235	113,613	112,112
Federal funds purchased and securities sold under agreements to repurchase	1,156	374	326	315	815	453	429	1,093
Other short-term borrowed funds	1,653	2,006	1,499	1,494	1,856	1,505	2,004	2,762
Long-term borrowed funds	14,433	15,639	13,641	13,486	11,765	13,400	13,154	11,780
Total stockholders' equity	20,817	20,276	20,467	20,059	20,270	20,109	20,064	19,847
Other Balance Sheet Data:								
Asset Quality Ratios:								
Allowance for loan and lease losses as a percentage of total loans and leases	1.06 %	1.08 %	1.10 %	1.12 %	1.12 %	1.11 %	1.12 %	1.13 %
Allowance for loan and lease losses as a percentage of nonperforming loans and leases	156	149	148	144	142	131	119	117
Nonperforming loans and leases	0.68	0.73	0.75	0.78	0.79	0.85	0.94	0.97

as a percentage of total loans and leases								
Capital ratios:[11]								
CET1 capital ratio [12]	10.6	10.8	11.2	11.2	11.2	11.1	11.2	11.2
Tier 1 capital ratio [13]	11.3	11.2	11.6	11.4	11.4	11.3	11.4	11.4
Total capital ratio [14]	13.3	13.4	13.8	13.9	13.9	13.8	14.0	14.0
Tier 1 leverage ratio [15]	10.0	9.9	10.2	10.0	10.0	9.9	9.9	9.9

(1) Fourth quarter 2018 noninterest income included $5 million of pre-tax notable items ($4 million in FAMC integration costs and $1 million in other pre-tax notable items).
(2) Fourth quarter 2018 noninterest expense included $45 million of pre-tax notable items consisting of $33 million in other notable items ($33 million in TOP efficiency initiatives) and $12 million of FAMC integration costs.
(3) Fourth quarter 2018 income tax expense included $41 million of benefit associated with notable items ($37 million in other notable items consisting of $8 million in TOP efficiency initiatives and $29 million of net deferred tax liability adjustment) and $4 million in FAMC integration costs.
(4) Fourth quarter 2018 net income included $9 million of after-tax notable items consisting of $12 million of FAMC integration costs offset by $3 million other notable items (including $29 million of net deferred tax liability adjustment offset by $25 million in after-tax TOP efficiency initiatives and $1 million of noninterest income notable items).
(5) Third quarter 2018 noninterest expense included $9 million of pre-tax notable items for FAMC integration costs. Income tax expense included $2 million of benefits associated with notable items for FAMC integration costs and net income included $7 million of after-tax notable items for FAMC integration costs.
(6) Fourth quarter 2017 noninterest income included $17 million of pre-tax notable items related to a gain on mortgage/home equity TDR Transaction. Noninterest expense included $40 million of pre-tax notable items consisting of $22 million of 2017 Tax Legislation-related notable items (colleague and community investment) and $18 million related to other notable items ($15 million in TOP efficiency initiatives and $3 million of home equity operational items); income tax expense included $340 million of benefit associated with notable items driven by the 2017 Tax Legislation of $331 million of net deferred tax liability adjustment and $9 million of tax benefit related to colleague and community investment; net income included $317 million of after-tax notable items consisting of a $318 million benefit related the December 2017 Tax Legislation ($331 million of net deferred tax liability adjustment partially offset by $13 million of after-tax colleague and community investment), $10 million of after-tax gain on mortgage/home equity TDR Transaction offset by $11 million of after-tax other notable items ($9 million in after-tax TOP efficiency initiatives and $2 million of after-tax home equity operational items); and net income per average common share, basic and diluted, included $0.64 related to notable items, primarily driven by the 2017 Tax Legislation.
(7) Second quarter 2017 noninterest income included $11 million of lease impairment credit-related costs and noninterest expense included $15 million of lease impairment credit-related costs.
(8) First quarter 2017 income tax expense and net income included a $23 million benefit related to the settlement of certain tax matters and net income per average common share, basic and diluted, included $0.04 benefit related to the settlement of certain tax matters.
(9) Ratios for the periods above are presented on an annualized basis.
(10) Excludes loans held for sale of $1.3 billion, $1.3 billion, $710 million, $800 million, $718 million, $1.2 billion, $707 million, and $669 million as of December 31, 2018, September 30, 2018, June 30, 2018, March 31, 2018, December 31, 2017, September 30, 2017, June 30, 2017 and March 31, 2017, respectively.
(11) The capital ratios and associated components are prepared using the U.S. Basel III Standardized transitional approach. The December 31, 2017 capital ratios reflect the retrospective adoption of FASB ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. See “—Results of Operations — 2017 compared with 2016 — Income Tax Expense” for

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

CAPITAL AND REGULATORY MATTERS

As a bank holding company and a financial holding company, we are subject to regulation and supervision by the FRB. As of December 31, 2018, our primary subsidiaries were 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. On January 2, 2019, we consolidated our banking subsidiaries via a merger of CBPA into CBNA in order to streamline governance and enterprise risk management, improve CBNA's risk profile and gain operational efficiencies. CBNA is now our primary subsidiary and our sole banking subsidiary.

Our regulation and supervision continues to evolve as the legal and regulatory frameworks governing our operations continue to change. The current operating environment reflects heightened regulatory expectations around many regulations including consumer compliance, the Bank Secrecy Act, anti-money laundering compliance, and increased internal audit activities. For more information, see "Regulation and Supervision" in Part I, Item 1 — Business, included in this Report.

Dodd-Frank Act and Economic Growth, Regulatory Relief and Consumer Protection Act

Under the Dodd-Frank Act, until the stress testing amendments of EGRRCPA take effect, we are required to submit our annual capital plan and the results of our annual company-run stress tests to the FRB by April 5th of each year and disclose certain results within 15 days after the FRB discloses the results of its supervisory-run tests. EGRRCPA amended the Dodd-Frank Act by, among other things, effective November 24, 2019, removing the requirements for firms with between $100 billion or more but less than $250 billion, such as Citizens, to conduct company-run stress tests and to be subject to supervisory stress testing (although the FRB retains discretion to subject such firms to these requirements). In light of these amendments, the FRB has exempted Citizens from supervisory and company-run stress testing requirements for the 2019 cycle and proposed to conduct supervisory stress tests on a biennial basis and to eliminate company-run stress testing requirements for certain BHCs, including Citizens. We publish estimated DFAST results under the supervisory severely adverse scenario on our regulatory filings and disclosures page on our Investor Relations website at http://investor.citizensbank.com. On April 5, 2018, we submitted our 2018 Capital Plan, Capital Policy and annual stress test results to the FRB as part of the 2018 CCAR process. On June 28, 2018, the FRB announced that it did not object to our 2018 Capital Plan including our proposed capital actions for the period beginning July 1, 2018 and ending June 30, 2019. Our 2018 Capital Plan includes quarterly common dividends of $0.27 per share in third and fourth quarter 2018, increasing to $0.32 per share in first and second quarter 2019, and common share repurchases of up to $1.02 billion through second quarter 2019. While the regulatory landscape of capital planning and stress testing continues to evolve, we maintain a robust inventory of potential actions that could be taken to restore capital, liquidity or both in the event of market or idiosyncratic financial stress. We continue to comply with all regulatory requirements for capital planning and stress testing as well as internal policy governing capital actions.

The Dodd-Frank Act also required our bank subsidiary to conduct stress tests on an annual basis and to disclose the stress test results. Under EGRRCPA, effective November 2019, banks with total consolidated assets between $100 billion and $250 billion, such as CBNA, will not be required to conduct annual company-run stress tests. In December 2018, the OCC proposed to implement this change and, if enacted as proposed, we believe that CBNA will not be required to conduct its annual company-run stress tests during 2019. CBNA submitted its 2018 annual stress tests to the OCC on April 5, 2018 and published, on our Investor Relations website referenced above, a summary of those results along with the stress test results of the Parent Company on June 21, 2018.

Similarly, we are required to submit the results of our mid-cycle company-run DFAST stress tests by October 5th of each year to the FRB and disclose the summary results of our internally developed stress tests under the internally developed severely adverse scenario between October 5th and November 4th. We submitted the results of our 2018 mid-cycle stress test to the FRB and disclosed a summary of the results on October 5, 2018. We publish these company-run estimated impacts of stress on our Investor Relations website referenced above. The FRB has proposed to eliminate mid-cycle company-run DFAST stress tests, effective with the 2020 capital planning and stress testing cycle and, as with the other capital planning and stress testing requirements for the 2019 cycle, has exempted Citizens from this requirement for the 2019 cycle.

Capital Framework

Under the U.S. Basel III capital framework, we and our banking subsidiaries must meet specific minimum requirements for the following ratios: common equity tier 1 capital, tier 1 capital, total capital, and tier 1 leverage. The table below presents our actual regulatory capital ratios under the U.S. Basel III Standardized rules:

(in millions, except ratio data)	Actual Amount	Actual Ratio	Required Minimum plus Required CCB for Non-Leverage Ratios(5)(6)
December 31, 2018			
Common equity tier 1 capital(1)	$14,485	10.6 %	6.4
Tier 1 capital(2)	15,325	11.3	7.9
Total capital(3)	18,157	13.3	9.9
Tier 1 leverage(4)	15,325	10.0	4.0
Risk-weighted assets	136,202		
Quarterly adjusted average assets	153,026		
December 31, 2017			
Common equity tier 1 capital(1)	$14,309	11.2 %	5.8 %
Tier 1 capital(2)	14,556	11.4	7.3
Total capital(3)	17,781	13.9	9.3
Tier 1 leverage(4)	14,556	10.0	4.0
Risk-weighted assets	127,692		
Quarterly adjusted average assets	145,601		

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

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

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

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

(5) Required "Minimum Capital ratio" for 2018 and 2017 are: Common equity tier 1 capital of 4.5%; Tier 1 capital of 6.0%; Total capital of 8.0%; and Tier 1 leverage of 4.0%.

(6) "Minimum Capital ratio" includes capital conservation buffer for Transitional Basel III of 1.875% for 2018 and 1.250% for 2017; N/A to Tier 1 leverage.

At December 31, 2018, our CET1 capital, tier 1 capital and total capital ratios were 10.6%, 11.3% and 13.3%, respectively, as compared with 11.2%, 11.4% and 13.9%, respectively, as of December 31, 2017. The CET1 capital ratio decreased as $8.5 billion of risk-weighted asset growth, including $1.5 billion from FAMC, goodwill and intangible growth attributable to the FAMC acquisition, and Capital Plan actions that included common dividends of $471 million, preferred dividends of $29 million and repurchase of $1.025 billion of our outstanding common stock, were partially offset by net income for the year ended December 31, 2018. The tier 1 capital ratio decreased due to the changes in CET1 capital ratio, partially offset by the issuance of preferred stock. The total capital ratio decreased due to the changes in CET1 and tier 1 capital ratios, as well as the June 2018 redemption of subordinated debt and an increase in non-qualifying subordinated debt. At December 31, 2018, our CET1 capital, tier 1 capital and total capital ratios were approximately 363 basis points, 275 basis points and 283 basis points, respectively, above their regulatory minima plus the fully phased-in capital conservation buffer. All ratios remained well above the U.S. Basel III minima.

Regulatory Capital Ratios and Capital Composition

CET1 capital under U.S. Basel III Standardized rules totaled $14.5 billion at December 31, 2018, and increased $176 million from $14.3 billion at December 31, 2017, as net income for the year ended December 31, 2018 was partially offset by the impact of common share repurchases, dividends and an increase in goodwill and intangibles related to the FAMC acquisition. Tier 1 capital at December 31, 2018 totaled $15.3 billion, reflecting a $769 million increase from $14.6 billion at December 31, 2017, driven by the changes in CET1 capital and the issuance of preferred stock. At December 31, 2018, we had $840 million of fixed-to-floating non-cumulative perpetual preferred stock issued and outstanding, an increase of $593 million from $247 million at December 31, 2017. The increase is attributable to the second quarter 2018 issuance of 300,000 shares of Series B Preferred Stock and the fourth quarter 2018 issuance of 300,000 shares of Series C Preferred Stock, both of which qualified as additional tier 1 capital. Total capital of $18.2 billion at December 31, 2018, increased $376 million from December 31, 2017, driven by the changes in CET1 and tier 1 capital, partially offset by the June 2018 redemption of subordinated debt and an increase in non-qualifying subordinated debt.

Risk-weighted assets ("RWA") totaled $136.2 billion at December 31, 2018, based on U.S. Basel III Standardized rules, up $8.5 billion from December 31, 2017. This increase was driven by growth in commercial loans and commitments, as well as growth in retail loans including residential mortgages, education and unsecured retail portfolios. The increase in RWA was also driven by the acquisition of FAMC mortgage servicing rights. These increases were partially offset by run-off in the auto and home equity portfolios.

As of December 31, 2018, the tier 1 leverage ratio was 10.0% and was stable with December 31, 2017 as the $7.4 billion increase in quarterly adjusted average assets was offset by the increase in tier 1 capital.

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

(in millions)	December 31, 2018	December 31, 2017
Total common stockholders' equity	$19,977	$20,023
Exclusions:[1]		
Net unrealized losses recorded in accumulated other comprehensive income, net of tax:		
Debt and equity securities	490	236
Derivatives	143	143
Unamortized net periodic benefit costs	463	441
Deductions:		
Goodwill	(6,923)	(6,887)
Deferred tax liability associated with goodwill	366	355
Other intangible assets	(31)	(2)
Total common equity tier 1	14,485	14,309
Qualifying preferred stock	840	247
Total tier 1 capital	15,325	14,556
Qualifying subordinated debt[2]	1,499	1,901
Allowance for loan and lease losses	1,242	1,236
Allowance for credit losses for off-balance sheet exposure	91	88
Total capital	$18,157	$17,781

[1] As a U.S. Basel III Standardized approach institution, we selected the one-time election to opt-out of the requirements to include all the components of AOCI.

[2] As of December 31, 2018 and 2017, the amount of non-qualifying subordinated debt excluded from regulatory capital was $139 million and $70 million, respectively.

Capital Adequacy Process

Our assessment of capital adequacy begins with our risk appetite and risk management framework. This framework provides for the identification, measurement and management of material risks. Capital requirements are determined for actual and forecasted risk portfolios using applicable regulatory capital methodologies. The assessment also considers the possible impacts of approved and proposed changes to regulatory capital requirements. Key analytical frameworks, including stress testing, which enable the assessment of capital adequacy versus unexpected loss under a variety of stress scenarios, supplement our base line forecast. A governance framework supports our capital planning process, including capital management policies and procedures that document capital adequacy metrics and limits, as well as our Capital Contingency Plan and the active engagement of both the legal-entity boards and senior management in oversight and decision-making.

Forward-looking assessments of capital adequacy feed development of a single capital plan covering us and our banking subsidiary that is periodically submitted to the FRB. We prepare this plan in full compliance with the FRB's Capital Plan Rule and we participate annually in the FRB's horizontal capital review, which is the FRB's assessment of specific capital planning areas as part of their normal supervisory process.

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

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

Capital Transactions

The following capital actions were completed by the Company during 2018:

- Declared and paid quarterly common stock dividends of $0.22 per share for the first and second quarters of 2018, and $0.27 per share for the third and fourth quarters of 2018, aggregating to common stock dividend payments of $471 million;
- Declared semi-annual dividends of $27.50 per share on the 5.500% fixed-to-floating rate non-cumulative perpetual Series A Preferred Stock, aggregating to $14 million;
- Issued $300 million, or 300,000 shares, of 6.000% fixed-to-floating rate non-cumulative perpetual Series B Preferred Stock (the "Series B Preferred Stock"), par value of $25.00 per share with a liquidation preference of $1,000 per share, and received net proceeds of $296 million;
- Declared semi-annual dividends of $37.00 per share on the 6.000% fixed-to-floating rate non-cumulative perpetual Series B Preferred Stock, aggregating to $11 million;
- Issued $300 million, or 300,000 shares, of 6.375% fixed-to-floating rate non-cumulative perpetual Series C Preferred Stock (the "Series C Preferred Stock"), par value of $25.00 per share with a liquidation preference of $1,000 per share, and received net proceeds of $297 million;
- Declared quarterly dividends of $12.57 per share on the 6.375% fixed-to-floating rate non-cumulative perpetual Series C Preferred Stock, aggregating to $4 million;
- Repurchased $1.025 billion of our outstanding common stock; and
- Redeemed $333 million of our 5.158% fixed-to-floating rate callable subordinated debt due June 29, 2023.

Banking Subsidiaries' Capital

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

	December 31, 2018		December 31, 2017	
(dollars in millions)	Amount	Ratio	Amount	Ratio
Citizens Bank, National Association				
Common equity tier 1 capital (1)	$11,994	10.6%	$11,917	11.4%
Tier 1 capital(2)	11,994	10.6	11,917	11.4
Total capital(3)	14,252	12.5	14,127	13.5
Tier 1 leverage(4)	11,994	9.9	11,917	10.3
Risk-weighted assets	113,610		104,767	
Quarterly adjusted average assets	121,686		115,291	
Citizens Bank of Pennsylvania (5)				
Common equity tier 1 capital (1)	$3,026	13.2%	$3,045	12.9%
Tier 1 capital(2)	3,026	13.2	3,045	12.9
Total capital(3)	3,226	14.1	3,284	13.9
Tier 1 leverage(4)	3,026	9.0	3,045	8.7
Risk-weighted assets	22,922		23,659	
Quarterly adjusted average assets	33,462		34,821	

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

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

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

(4) "Tier 1 leverage ratio" is tier 1 capital divided by quarterly average total assets as defined under U.S. Basel III Standardized approach.
(5) On January 2, 2019, we consolidated our banking subsidiaries via a merger of CBPA into CBNA.
CBNA CET1 capital totaled $12.0 billion at December 31, 2018, up $77 million from $11.9 billion at December 31, 2017 reflecting net income for the year ended December 31, 2018, partially offset by dividend payments and an increase in goodwill and intangibles related to the FAMC acquisition. At December 31, 2018, CBNA held minimal additional tier 1 capital. Total capital was $14.3 billion at December 31, 2018, an increase of $125 million from December 31, 2017, driven by the increase in CET1 capital, and an increase in the ACL.
CBNA had RWA of $113.6 billion at December 31, 2018, an increase of $8.8 billion from December 31, 2017 driven by growth in commercial loans and commitments, as well as growth in retail loans including residential

mortgages, education and unsecured retail portfolios. The increase in RWA was also driven by FAMC, which resulted in higher mortgage servicing rights. These increases were partially offset by run-off in the auto and home equity portfolios.

As of December 31, 2018, the CBNA tier 1 leverage ratio decreased 48 basis points to 9.9% from 10.3% as of December 31, 2017, primarily driven by a $6.4 billion increase in quarterly adjusted average assets that drove a 54 basis point decline in the ratio.

CBPA CET1 capital totaled $3.0 billion at December 31, 2018, a decrease of $19 million at December 31, 2017, as dividend payments exceeded net income. Total capital was $3.2 billion at December 31, 2018, a decrease of $58 million from December 31, 2017, driven by the decrease in CET1 capital and a decrease in the ACL.

CBPA had RWA of $22.9 billion at December 31, 2018, a decrease of $737 million from December 31, 2017, driven by decreases in the auto, education, residential mortgage and home equity portfolios. These decreases were partially offset by an increase in commercial loans.

As of December 31, 2018, the CBPA tier 1 leverage ratio was 9.0%, an increase of 30 basis points from December 31, 2017, primarily driven by a $1.4 billion decrease in quarterly adjusted average assets that drove a 35 basis point increase in the ratio.

LIQUIDITY

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

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

Parent Company Liquidity

Our Parent Company's primary sources of cash are (i) dividends and interest received from CBNA as a result of investing in bank equity and subordinated debt and (ii) externally issued preferred stock and senior and subordinated debt. Uses of cash include the following: (i) routine cash flow requirements as a bank holding company, including periodic share repurchases and payments of dividends, interest and expenses; (ii) needs of subsidiaries, including CBNA, for additional equity and, as required, its need for debt financing; and (iii) support for extraordinary funding requirements when necessary. To the extent that the Parent Company has relied on wholesale borrowings, uses also include payments of related principal and interest.

On January 29, 2019, the Parent Company issued $300 million, or 12,000,000 depositary shares, each representing a 1/40th interest in a share of its 6.350% fixed-to-floating rate non-cumulative perpetual Series D Preferred Stock, par value of $25.00 per share with a liquidation preference of $1,000 per share (equivalent to $25 per depositary share). For further discussion, see Note 16 "Stockholders' Equity" to our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, of this Report.

For further information on outstanding debt and preferred stock, see Note 12 "Borrowed Funds" and Note 16 "Stockholders' Equity" to our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, of this Report.

During the years ended December 31, 2018 and 2017, the Parent Company declared and paid dividends on common stock of $471 million and $322 million, respectively, and declared dividends on preferred stock of $29 million and $14 million, respectively. During the years ended December 31, 2018 and 2017, the Parent Company repurchased $1.025 billion and $820 million of its outstanding common stock, respectively.

Our Parent Company's cash and cash equivalents represent a source of liquidity that can be used to meet various needs and totaled $911 million as of December 31, 2018 compared with $443 million as of December 31, 2017. The Parent Company's double-leverage ratio (the combined equity investment in Parent Company subsidiaries divided by Parent Company equity) is a measure of reliance on equity cash flows from subsidiaries to fund Parent Company obligations. At December 31, 2018, the Parent Company's double-leverage ratio was 99%.

CBNA Liquidity

In the ordinary course of business, the liquidity of CBNA is managed by matching sources and uses of cash. The primary sources of bank liquidity include (i) deposits from our consumer and commercial customers; (ii) payments of principal and interest on loans and debt securities; and (iii) wholesale borrowings, as needed, and as described under "—Liquidity Risk Management and Governance." The primary uses of bank liquidity include (i) withdrawals and maturities of deposits; (ii) payment of interest on deposits; (iii) funding of loans and related commitments; and (iv) funding of securities purchases. To the extent that CBNA has relied on wholesale borrowings, uses also include payments of related principal and interest. For further information on CBNA's outstanding debt, see Note 12 "Borrowed Funds" to our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, of this Report.

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

On February 14, 2019, CBNA issued $1.5 billion in senior notes, consisting of $700 million in three-year fixed-rate notes, $300 million in three-year floating-rate notes, and $500 million in seven-year fixed-rate notes.

Liquidity Risk

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

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

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

Factors Affecting Liquidity

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

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

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

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

NR = Not Rated

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

The FRB and the OCC regularly evaluate our liquidity as part of the overall supervisory process. In addition we are subject to existing and evolving regulatory liquidity requirements, some of which are subject to further rulemaking, guidance and interpretation by the applicable federal regulators. For further discussion, see "Regulation and Supervision — Financial Regulatory Reform" and "—Liquidity Requirements" in Part I, Item 1 — Business, included in this Report.

Liquidity Risk Management and Governance

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

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

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

- Core deposits continued to be our primary source of funding and our consolidated year-end loan-to-deposit ratio was 97.6%;
- Our cash position (which is defined as cash balance held at the FRB) totaled $3.0 billion;
- Contingent liquidity was $26.9 billion, consisting of unencumbered high-quality liquid assets of $19.1 billion, unused FHLB capacity of $4.8 billion, and our cash position (defined above) of $3.0 billion. Asset liquidity (a component of contingent liquidity) was $22.1 billion, consisting of our cash position of $3.0 billion and unencumbered high-quality

and liquid securities of $19.1 billion; and

- Available discount window capacity, defined as available total borrowing capacity from the FRB based on identified collateral, is secured by non-mortgage commercial and retail loans and totaled $12.3 billion. Use of this borrowing capacity would be considered only during exigent circumstances.

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

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

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

Cash flows from operating activities contributed $1.8 billion in 2018, led by net income of $1.7 billion, proceeds from sales of mortgage loans held for sale of $8.1 billion and proceeds from sales of commercial loans held for sale of $1.9 billion, partially offset by originations of mortgage loans held for sale of $8.0 billion and purchases of commercial loans held for sale of $1.9 billion. Net cash used by investing activities was $7.1 billion, primarily reflecting a net increase in loans and leases of $6.4 billion, purchases of debt securities available for sale of $4.3 billion and the acquisition of FAMC, partially offset by proceeds from maturities, paydowns and sales of securities available for sale of $4.3 billion. Cash provided by financing activities was $6.4 billion, driven by proceeds from issuance of long-term borrowed funds of $22.5 billion, a net increase in deposits of $4.5 billion and net proceeds from issuance of preferred stock of $593 million, partially offset by repayments of long-term FHLB advances of $14.5 billion and a net decrease in other short-term borrowed funds of $5.2 billion. The $22.5 billion proceeds included $21.8 billion in FHLB advances and $750 million from issuances of medium term debt. These activities represented a cumulative increase in cash and cash equivalents of $1.0 billion, which, when added to the cash and cash equivalents balance of $3.0 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of $4.1 billion as of December 31, 2018.

Cash flows from operating activities contributed $1.9 billion in 2017, led by net income of $1.7 billion, proceeds from sales of mortgage loans held for sale of $3.2 billion and proceeds from sales of commercial loans held for sale of $2.0 billion, partially offset by originations of mortgage loans held for sale of $2.9 billion and purchases of commercial loans held for sale of $2.1 billion. Net cash used by investing activities was $4.0 billion, primarily reflecting a net increase in loans and leases of $3.6 billion and securities available for sale portfolio purchases of $5.4 billion, partially offset by proceeds from maturities, paydowns and sales of securities available for sale of $4.7 billion. Cash provided by financing activities was $1.4 billion, driven by proceeds from issuance of long-term borrowed funds of $15.4 billion and a net increase in deposits of $5.3 billion, partially offset by repayments of long-term borrowed funds of $12.8 billion and a net decrease in other short-term borrowed funds of $5.0 billion. The $15.4 billion proceeds included $3.3 billion from issuances of medium term debt and $12.1 billion in FHLB advances. The $12.8 billion of repayments were all related to FHLB advances. These activities represented a cumulative decrease in cash and cash equivalents of $672 million, which, when added to the cash and cash equivalents balance of $3.7 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of $3.0 billion as of December 31, 2017.

CONTRACTUAL OBLIGATIONS

The following table presents our outstanding contractual obligations as of December 31, 2018:

(in millions)	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Deposits with a stated maturity of less than one year [(1)] [(2)]	$100,233	$100,233	$—	$—	$—
Term deposits [(1)]	19,342	15,889	3,168	280	5
Long-term borrowed funds [(1)] [(3)]	14,433	—	11,298	1,838	1,297
Contractual interest payments [(4)]	1,105	418	397	176	114
Operating lease obligations	895	165	289	194	247
Purchase obligations [(5)]	725	408	203	88	26
Total outstanding contractual obligations	$136,733	$117,113	$15,355	$2,576	$1,689

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

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

(3) Includes obligations under capital leases.

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

	December 31,			
(in millions)	2018	2017	Change	Percent
Undrawn commitments to extend credit	$69,553	$62,959	$6,594	10%
Letters of credit	2,125	2,136	(11)	(1)
Marketing rights	37	41	(4)	(10)
Risk participation agreements	19	16	3	19
Residential mortgage loans sold with recourse	5	7	(2)	(29)
Total	$71,739	$65,159	$6,580	10%

CRITICAL ACCOUNTING ESTIMATES

Our audited Consolidated Financial Statements, which are included in this Report, are prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to establish accounting policies and make estimates that affect amounts reported in our audited Consolidated Financial Statements.

An accounting estimate requires assumptions and judgments about uncertain matters that could have a material effect on our audited Consolidated Financial Statements. Estimates are made using facts and circumstances known at a point in time. Changes in those facts and circumstances could produce results substantially different from those estimates.

The most significant accounting policies and estimates and their related application are discussed below.

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

Allowance for Credit Losses

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

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

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

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

For most non-impaired retail loan portfolio types, the ALLL is based upon the incurred loss model utilizing the PD, LGD and exposure at default on an individual loan basis. When developing these factors, we may consider the loan product and collateral type, delinquency status, LTV ratio, lien position, borrower's credit, time outstanding, geographic location and incurred loss period. Incurred loss periods are reviewed and updated at least annually, and potentially more frequently when economic situations change rapidly, as they tend to fluctuate with economic cycles. Incurred loss periods are generally longer in good economic times and shorter in bad times. Certain retail portfolios, including education, unsecured personal loans, SBO home equity loans and credit card receivables utilize roll rate or vintage models to estimate the ALLL.

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

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

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

The above measures are all used to assess the PD and LGD for HELOC borrowers for whom we originated the loans. For retail TDRs that are not collateral-dependent, allowances are developed using the present value of expected future cash flows, compared to the recorded investment in the loans. Expected re-default factors are considered in this analysis. Retail TDRs that are deemed collateral-dependent are written down to the fair market value of the collateral less costs to sell. The fair value of collateral is periodically monitored subsequent to the modification.

Changes in the levels of estimated losses can significantly affect management's determination of an appropriate ALLL. For retail loans, losses are affected by such factors as loss severity, collateral values, economic conditions, and other factors. A one basis point and five basis point increase in the estimated loss rate for retail loans at December 31, 2018 would have increased the ALLL by $6 million and $30 million, respectively. The ALLL for our Commercial Banking segment is sensitive to assigned credit risk ratings and inherent loss rates. If 10% and 20% of the December 31, 2018 year end loan balances (including unfunded commitments) within each risk rating category of our Commercial Banking segment had experienced downgrades of two risk categories, the ALLL would have increased by $99 million and $194 million, respectively.

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

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

Fair Value

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

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

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

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

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

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

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

MSRs do not trade in an active market with readily observable prices. MSRs are classified as Level 3 since the valuation methodology utilizes significant unobservable inputs. The fair value was calculated using a discounted cash flow model which used assumptions, including weighted-average life, prepayment assumptions and weighted-average option adjusted spread. It is important to note that changes in our assumptions may not be independent of each other. Changes in one assumption may result in changes to another (e.g., changes in interest rates, which are inversely correlated to changes in prepayment rates, may result in changes to discount rates), which could impact sensitivities. The underlying assumptions and estimated values are corroborated by values received from independent third parties based on their review of the servicing portfolio, and comparisons to market transactions. In addition, the MSR Policy is approved by the Asset Liability Committee.

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

RISK GOVERNANCE

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

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

Risk Framework

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

First Line of Defense

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

Second Line of Defense

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

Third Line of Defense

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

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

Risk Appetite

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

Credit Risk

Overview

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

Objective

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

Organizational Structure

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

Governance
The primary mechanisms used to govern our credit risk function are our consumer and commercial credit policies. These policies outline the minimum acceptable lending standards that align with our desired risk appetite. Material changes in our business model and strategies that identify a need to change our risk appetite or highlight a risk not previously contemplated are identified by the individual committees and presented to the Credit Policy Committee, Executive Risk Committee and the Board Risk Committee for approval, as appropriate.
Key Management Processes
We employ a comprehensive and integrated risk control program to proactively (i) identify, (ii) measure, (iii) monitor, and (iv) mitigate existing and emerging credit risks across the credit lifecycle (origination, account management/portfolio management, and loss mitigation and recovery).
Consumer
On the consumer banking side of credit risk, our teams use models to evaluate consumer loans across the lifecycle of the loan. Starting at origination, credit scoring models are used to forecast the probability of default of an applicant. When approving customers for a new loan or extension of an existing credit line, credit scores are used in conjunction with other credit risk variables such as affordability, length of term, collateral value, collateral type, and lien subordination.
To ensure proper oversight of the underwriting teams, lending authority is granted by the second line of defense credit risk function to each underwriter. The amount of delegated authority depends on the experience of the individual. We periodically evaluate the performance of each underwriter and annually reauthorize their delegated authority. Only senior members of the second line of defense credit risk team are authorized to approve significant exceptions to credit policies. It is not uncommon to make exceptions to established policies when compensating factors are present. There are exception limits which, when reached, trigger a comprehensive analysis.
Once an account is established, credit scores and collateral values are refreshed at regular intervals to allow for proactive identification of increasing or decreasing levels of credit risk. Our approach to managing credit risk is highly analytical and, where appropriate, is automated, to ensure consistency and efficiency.
Commercial
On the commercial banking side of credit risk, the structure is broken into C&I loans and leases and CRE. Within C&I loans and leases there are separate verticals established for certain specialty products (e.g., asset-based lending, leasing, franchise finance, health care, and technology, mid-corporate). A “specialty vertical” is a stand-alone team of industry or product specialists. Substantially all activity that falls under the ambit of the defined industry or product is managed through a specialty vertical when one exists. CRE also operates as a specialty vertical.
Commercial credit risk management begins with defined credit products and policies.
Commercial transactions are subject to individual analysis and approval at origination and, with few exceptions, are subject to a formal annual review requirement. The underwriting process includes the establishment and approval of credit grades that confirm the PD and LGD. All material transactions then require the approval of both a business line approver and an independent credit approver with the requisite level of delegated authority. The approval level of a particular credit facility is determined by the size of the credit relationship as well as the PD. The checks and balances in the credit process and the independence of the credit approver function are designed to appropriately assess and sanction the level of credit risk being accepted, facilitate the early recognition of credit problems when they occur, and to provide for effective problem asset management and resolution. All authority to grant credit is delegated through the independent Credit Risk function and is closely monitored and regularly updated.
The primary factors considered in commercial credit approvals are the financial strength of the borrower, assessment of the borrower’s management capabilities, cash flows from operations, industry sector trends, type and sufficiency of collateral, type of exposure, transaction structure, and the general economic outlook. While these are the primary factors considered, there are a number of other factors that may be considered in the decision process. In addition to the credit analysis conducted during the approval process at origination and annual review, our Credit Quality

Assurance group performs testing to provide an independent review and assessment of the quality of the portfolio and new originations. This group conducts portfolio reviews on a risk-based cycle to evaluate individual loans, and validate risk ratings, as well as test the consistency of the credit processes and the effectiveness of credit risk management.

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

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

MARKET RISK

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

Non-Trading Risk

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

Interest Rate Risk

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

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

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

A primary source of our structural interest rate risk relates to faster repricing of floating rate loans relative to the retail deposit funding. This source of asset sensitivity is more biased to the short end of the yield curve. For the past few years, the FRB has been slowly raising short-term rates to a more neutral stance, and during that time the risk of rising rates seemed biased to the upside and thus we maintained an asset sensitive risk position. As interest rates rose, the risk position became more symmetrical given the possibility of falling rates in the future.

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

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

monthly basis to the Asset Liability Committee and at Board meetings.
We measure structural interest rate risk through a variety of metrics intended to quantify both short-term and long-term exposures. The primary method that we use to quantify interest rate risk is simulation analysis in

which we model net interest income from assets, liabilities and hedge derivative positions under various interest rate scenarios over a three-year horizon. Exposure to interest rate risk is reflected in the variation of forecasted net interest income across scenarios.

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

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

The table below reports net interest income exposures against a variety of interest rate scenarios. Our policies involve measuring exposures as a percentage change in net interest income over the next year due to either instantaneous or gradual parallel changes in rates relative to the market implied forward yield curve. With rates rising from historically low levels due to Federal Open Market Committee rate increases, exposure to falling rates has increased. As the following table illustrates, our balance sheet is asset-sensitive: net interest income would benefit from an increase in interest rates. Exposure to a decline in interest rates is within limit. While an instantaneous and severe shift in interest rates was used in this analysis, we believe that any actual shift in interest rates would likely be more gradual and would therefore have a more modest impact as demonstrated in the following table.

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

	Estimated % Change in Net Interest Income over 12 Months	
	December 31,	
Basis points	2018	2017
Instantaneous Change in Interest Rates		
+200	9.5 %	9.6 %
+100	4.8	4.9
-100	(4.5)	(5.9)
Gradual Change in Interest Rates		
+200	4.9	5.1
+100	2.5	2.7
-100	(1.1)	(1.8)

Asset sensitivity against a 200 basis point gradual increase in rates was 4.9% at December 31, 2018, a slight decrease from 5.1% at December 31, 2017. As the FRB continues to normalize rates, given improved economic growth and data, the upward trend in rates has benefited our net interest income and net interest margin as a result of this asset sensitivity. The risk position can be affected by changes in interest rates which impact the repricing sensitivity or beta of the deposit base as well as the cash flows on prepayable assets. The risk position is managed within our risk limits, and long term view of interest rates, through occasional adjustments to securities investments, interest rate swaps and

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

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

Mortgage Servicing Rights

We have market risk associated with the value of residential mortgage servicing right assets ("MSRs"), which are impacted by various types of inherent risks, including risks related to duration, basis, convexity, volatility and yield curve. We have elected to account for the MSRs acquired from FAMC at fair value while maintaining a lower of cost or market approach on our MSRs held before the FAMC acquisition because the MSRs acquired from FAMC are a separate class of MSRs.

As part of our overall risk management strategy relative to the fair market value of the MSRs acquired from FAMC, we enter into various free-standing derivatives, such as interest rate swaps, interest rate swaptions, interest rate futures, and forward contracts to purchase mortgage-backed securities to economically hedge the changes in fair value. As of December 31, 2018, the fair value of the MSRs acquired from FAMC was $600 million and the total notional amount of related derivative contracts was $4.6 billion. Gains and losses on MSRs and the related derivatives used for hedging are included in mortgage banking fees on the Consolidated Statements of Operations.

As of December 31, 2018 and 2017, our MSRs held before the FAMC acquisition had a book value of $221 million and $198 million, respectively, and were carried at the lower of cost or market. As of December 31, 2018 and 2017, these MSRs had a fair value of $243 million and $218 million, respectively, which exceeded the carrying value at those dates. Depending on the interest rate environment, hedges may be used to protect the market value of these MSRs.

As with our traded market risk based activities, earnings at risk excludes the impact of MSRs. MSRs are captured under our single price risk management framework that is used for calculating a management value at risk that is consistent with the definition used by banking regulators, as defined below.

Trading Risk

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

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

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

Market Risk Governance

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

Market Risk Measurement

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

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

VaR Overview

The market risk measurement model is based on historical simulation. The VaR measure estimates the extent of any fair value losses on trading positions that may occur due to broad market movements (General VaR) such as changes in the level of interest rates, foreign exchange rates, equity prices and commodity prices. It is calculated on the basis that current positions remain broadly unaltered over the course of a given holding period. It is assumed that markets are sufficiently liquid to allow the business to close its positions, if required, within this holding period. VaR's benefit is that it captures the historic correlations of a portfolio. Based on the composition of our "covered positions," we also use a standardized add-on approach for the loan trading desk's Specific Risk capital which estimates the extent of any losses that may occur from factors other than broad market movements. The General VaR approach is expressed in terms of a confidence level over the past 500 trading days. The internal VaR measure (used as the basis of the main VaR trading limits) is a 99% confidence level with a one day holding period, meaning that a loss greater than the VaR is expected to occur, on average, on only one day in 100 trading days (i.e., 1% of the time). Theoretically, there should be a loss event greater than VaR two to three times per year. The regulatory measure of VaR is done at a 99% confidence level with a ten-day holding period. The historical market data applied to calculate the VaR is updated on a two business day lag. Refer to "Market Risk Regulatory Capital" below for details of our ten-day VaR metrics for the quarters ended December 31, 2018 and 2017, respectively, including high, low, average and period end VaR for interest rate and foreign exchange rate risks, as well as total VaR.

Market Risk Regulatory Capital

The U.S. banking regulators' "Market Risk Rule" covers the calculation of market risk capital and substantially modified the determination of market risk-weighted assets and implemented a more risk sensitive methodology for the risk inherent in certain trading positions categorized as "covered positions." For the purposes of the Market Risk Rule, all of our client facing trades and associated hedges need to maintain a low risk profile to qualify, and do qualify, as "covered positions." For the three months ended December 31, 2018 and 2017, we were not subject to the reporting threshold under the Market Risk Rule. As a result, the $785 million and $555 million of calculated market risk-weighted assets as of December 31, 2018 and 2017, respectively, were not included in our risk-weighted assets. As such, our covered trading activities were risk-weighted under U.S. Basel III Standardized credit risk rules. While not subject to the determination requirements of market risk-weighted assets, we nevertheless comply with the Market Risk Rule's other requirements. The internal management VaR measure is calculated based on the same population of trades that is utilized for regulatory VaR. The following table presents the results of our modeled and non-modeled measures for regulatory capital calculations:

(in millions)	For the Three Months Ended December 31, 2018				For the Three Months Ended December 31, 2017			
Market Risk Category	Period End	Average	High	Low	Period End	Average	High	Low
Interest Rate	$—	$1	$2	$—	$2	$1	$2	$1
Foreign Exchange Currency Rate	—	—	—	—	—	—	—	—
Credit Spread	5	2	5	2	2	2	2	1
Commodity	—	—	—	—	N/A	N/A	N/A	N/A
General VaR	5	3	5	1	3	2	3	1
Specific Risk VaR	—	—	—	—	—	—	—	—
Total VaR	$5	$3	$5	$1	$3	$2	$3	$1
Stressed General VaR	$13	$13	$15	$10	$11	$9	$12	$7
Stressed Specific Risk VaR	—	—	—	—	—	—	—	—
Total Stressed VaR	$13	$13	$15	$10	$11	$9	$12	$7
Market Risk Regulatory Capital	$47				$34			
Specific Risk Not Modeled Add-on	16				10			
de Minimis Exposure Add-on	—				—			
Total Market Risk Regulatory Capital	$63				$44			
Market Risk-Weighted Assets (calculated)	$785				$555			
Market Risk-Weighted Assets (included in our FR Y-9C regulatory filing) [1]	$—				$—			

[1] For the three months ended December 31, 2018 and 2017, we did not meet the reporting threshold prescribed by Market Risk Capital Guidelines.

Stressed VaR

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

Sensitivity Analysis

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

Stress Testing

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

VaR Model Review and Validation

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

VaR Backtesting

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

Daily VaR Backtesting

KEY PERFORMANCE METRICS, NON-GAAP FINANCIAL MEASURES AND RECONCILATIONS

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

		Year Ended December 31,		
(in millions, except share, per-share and ratio data)	Ref.	2018	2017	2016
Total revenue (GAAP)	A	$6,128	$5,707	$5,255
Noninterest expense (GAAP)	B	3,619	3,474	3,352
Net income (GAAP)	C	1,721	1,652	1,045
Net income available to common stockholders (GAAP)	D	1,692	1,638	1,031
Return on average common equity:				
Average common equity (GAAP)	E	$19,645	$19,618	$19,698
Return on average common equity	D/E	8.62 %	8.35 %	5.23 %
Return on average tangible common equity:				
Average common equity (GAAP)	E	$19,645	$19,618	$19,698
Less: Average goodwill (GAAP)		6,912	6,883	6,876
Less: Average other intangibles (GAAP)		14	2	2
Add: Average deferred tax liabilities related to goodwill (GAAP)		359	534	502
Average tangible common equity	F	$13,078	$13,267	$13,322
Return on average tangible common equity	D/F	12.94 %	12.35 %	7.74 %
Return on average total assets:				
Average total assets (GAAP)	G	$154,553	$149,953	$143,183
Return on average total assets	C/G	1.11 %	1.10 %	0.73 %
Return on average total tangible assets:				
Average total assets (GAAP)	G	$154,553	$149,953	$143,183
Less: Average goodwill (GAAP)		6,912	6,883	6,876
Less: Average other intangibles (GAAP)		14	2	2
Add: Average deferred tax liabilities related to goodwill (GAAP)		359	534	502
Average tangible assets	H	$147,986	$143,602	$136,807
Return on average total tangible assets	C/H	1.16 %	1.15 %	0.76 %
Efficiency ratio:				
Efficiency ratio	B/A	59.06 %	60.87 %	63.80 %
Operating leverage:				
Increase in total revenue		7.37 %	8.61 %	8.93 %
Increase in noninterest expense		4.18	3.63	2.85
Operating leverage		3.19 %	4.98 %	6.08 %
Effective income tax rate:				
Income before income tax expense	I	$2,183	$1,912	$1,534
Income tax expense	J	462	260	489
Effective income tax rate	J/I	21.16 %	13.62 %	31.88 %
Net income per average common share - basic and diluted:				
Average common shares outstanding - basic (GAAP)	K	478,822,072	502,157,440	522,093,545
Average common shares outstanding - diluted (GAAP)	L	480,430,741	503,685,091	523,930,718
Net income per average common share - basic (GAAP)	D/K	$3.54	$3.26	$1.97
Net income per average common share - diluted (GAAP)	D/L	3.52	3.25	1.97

Dividend payout ratio:				
Cash dividends declared and paid per common share	M	$0.98	$0.64	$0.46
Dividend payout ratio	M/(D/K)	28 %	20 %	23 %

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

		As of and for the Year Ended December 31,										
		2018				2017				2016		
(in millions, except ratio data)	Ref.	Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking (1)	C
Net income (loss) available to common stockholders:												
Net income	N	$767	$927	$27	$1,721	$452	$774	$426	$1,652	$345	$631	$
Less: Preferred stock dividends		—	—	29	29	—	—	14	14	—	—	1
Net income (loss) available to common stockholders	O	$767	$927	($2)	$1,692	$452	$774	$412	$1,638	$345	$631	$
Efficiency ratio:												
Total revenue (GAAP)	P	$4,037	$2,042	$49	$6,128	$3,556	$1,949	$202	$5,707	$3,326	$1,754	$
Noninterest expense (GAAP)	Q	2,723	813	83	3,619	2,593	772	109	3,474	2,547	741	6
Efficiency ratio	Q/P	67.47%	39.80%	NM	59.06%	72.93%	39.62%	NM	60.87%	76.57%	42.26%	N
Return on average total tangible assets:												
Average total assets (GAAP)		$62,444	$52,362	$39,747	$154,553	$59,714	$49,747	$40,492	$149,953	$56,388	$47,159	$
Less: Average goodwill (GAAP)		—	—	6,912	6,912	—	—	6,883	6,883	—	—	6
Less: Average other intangibles (GAAP)		—	—	14	14	—	—	2	2	—	—	2
Add: Average deferred tax		—	—	359	359	—	—	534	534	—	—	5

liabilities related to goodwill (GAAP)												
Average total tangible assets	R	$62,444	$52,362	$33,180	$147,986	$59,714	$49,747	$34,141	$143,602	$56,388	$47,159	$
Return on average total tangible assets	N/R	1.23 %	1.77 %	NM	1.16 %	0.76 %	1.56 %	NM	1.15 %	0.61 %	1.34 %	N

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

		Year Ended December 31,	
(in millions, except share, per-share and ratio data)	Ref.	2018	2017
Noninterest income, Underlying:			
Noninterest income (GAAP)		$1,596	$1,534
Less: Notable items			
FAMC integration costs		(4)	—
Gain on mortgage/home equity TDR Transaction		—	17
TOP efficiency initiatives and other actions		(1)	—
Lease impairment credit-related costs		—	(11)
Noninterest income, Underlying (non-GAAP)		$1,601	$1,528
Total revenue, Underlying:			
Total revenue (GAAP)	A	$6,128	$5,707
Less: Notable items			
FAMC integration costs		(4)	—
Gain on mortgage/home equity TDR Transaction		—	17
TOP efficiency initiatives and other actions		(1)	—
Lease impairment credit-related costs		—	(11)
Total revenue, Underlying (non-GAAP)	S	$6,133	$5,701
Noninterest expense, Underlying:			
Noninterest expense (GAAP)	B	$3,619	$3,474
Less: Notable items			
FAMC integration costs		21	—
Tax and tax-related notable items:			
Colleague and community reinvestment		—	22
Home equity operational items		—	3
TOP efficiency initiatives and other actions		33	15
Lease impairment credit-related costs		—	15
Noninterest expense, Underlying (non-GAAP)	T	$3,565	$3,419
Pre-provision profit:			
Total revenue (GAAP)	A	6,128	$5,707
Less: Noninterest expense (GAAP)	B	3,619	3,474
Pre-provision profit (GAAP)		2,509	$2,233
Pre-provision profit, Underlying:			
Total revenue, Underlying (non-GAAP)	S	$6,133	$5,701
Less: Noninterest expense, Underlying (non-GAAP)	T	3,565	3,419
Pre-provision profit, Underlying (non-GAAP)		$2,568	$2,282
Total credit-related costs, Underlying:			
Provision for credit losses (GAAP)		$326	$321
Add: Lease impairment credit-related costs		—	26
Total credit-related costs, Underlying (non-GAAP)		$326	$347

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

(in millions, except share, per-share and ratio data)	Ref.	Year Ended December 31, 2018	2017
Income before income tax expense, Underlying:			
Income before income tax expense (GAAP)	I	$2,183	$1,912
Less: Notable items			
FAMC integration costs		(25)	—
Tax and tax-related notable items:			
Colleague and community reinvestment		—	(22)
Gain on mortgage/home equity TDR Transaction		—	17
Home equity operational items		—	(3)
TOP efficiency initiatives and other actions		(34)	(15)
Income before income tax expense, Underlying (non-GAAP)	U	$2,242	$1,935
Income tax expense and effective income tax rate, Underlying:			
Income tax expense (GAAP)	J	$462	$260
Less: Notable items			
FAMC integration costs		(6)	—
Tax and tax-related notable items:			
Tax Legislation DTL adjustment		(29)	(331)
Colleague and community reinvestment		—	(9)
Settlement of certain tax matters		—	(23)
Gain on mortgage/home equity TDR Transaction		—	7
Home equity operational items		—	(1)
TOP efficiency initiatives and other actions		(8)	(6)
Income tax expense, Underlying (non-GAAP)	V	$505	$623
Effective income tax rate (GAAP)	J/I	21.16 %	13.62 %
Effective income tax rate, Underlying (non-GAAP)	V/U	22.55	32.20
Net income, Underlying:			
Net income (GAAP)	C	$1,721	$1,652
Add: Notable items, net of tax expense			
FAMC integration costs		19	—
Tax and tax-related notable items:			
Tax Legislation DTL adjustment		(29)	(331)
Colleague and community reinvestment		—	13
Settlement of certain tax matters		—	(23)
Gain on mortgage/home equity TDR Transaction		—	(10)
Home equity operational items		—	2
TOP efficiency initiatives and other actions		26	9
Net income, Underlying (non-GAAP)	W	$1,737	$1,312

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

(in millions, except share, per-share and ratio data)	Ref.	Year Ended December 31, 2018	2017
Net income available to common stockholders, Underlying:			
Net income available to common stockholders (GAAP)	D	$1,692	$1,638
Add: Notable items, net of tax expense			
FAMC integration costs		19	—
Tax and tax-related notable items:			
Tax Legislation DTL adjustment		(29)	(331)
Colleague and community reinvestment		—	13
Settlement of certain tax matters		—	(23)
Gain on mortgage/home equity TDR Transaction		—	(10)
Home equity operational items		—	2
TOP efficiency initiatives and other actions		26	9
Net income available to common stockholders, Underlying (non-GAAP)	X	$1,708	$1,298
Return on average common equity and return on average common equity, Underlying:			
Average common equity (GAAP)	E	$19,645	$19,618
Return on average common equity	D/E	8.62 %	8.35 %
Return on average common equity, Underlying (non-GAAP)	X/E	8.69	6.62
Return on average tangible common equity and return on average tangible common equity, Underlying:			
Average common equity (GAAP)	E	$19,645	$19,618
Less: Average goodwill (GAAP)		6,912	6,883
Less: Average other intangibles (GAAP)		14	2
Add: Average deferred tax liabilities related to goodwill (GAAP)		359	534
Average tangible common equity	F	$13,078	$13,267
Return on average tangible common equity	D/F	12.94 %	12.35 %
Return on average tangible common equity, Underlying (non-GAAP)	X/F	13.06	9.79
Return on average total assets and return on average total assets, Underlying:			
Average total assets (GAAP)	G	$154,553	$149,953
Return on average total assets	C/G	1.11 %	1.10 %
Return on average total assets, Underlying (non-GAAP)	W/G	1.12	0.88
Return on average total tangible assets and return on average total tangible assets, Underlying:			
Average total assets (GAAP)	G	$154,553	$149,953
Less: Average goodwill (GAAP)		6,912	6,883
Less: Average other intangibles (GAAP)		14	2
Add: Average deferred tax liabilities related to goodwill (GAAP)		359	534
Average tangible assets	H	$147,986	$143,602
Return on average total tangible assets	C/H	1.16 %	1.15 %
Return on average total tangible assets, Underlying (non-GAAP)	W/H	1.17	0.91
Efficiency ratio and efficiency ratio, Underlying:			
Efficiency ratio	B/A	59.06 %	60.87 %
Efficiency ratio, Underlying (non-GAAP)	T/S	58.13	59.96
Operating leverage and operating leverage, Underlying:			
Increase in total revenue		7.37 %	8.61 %

Increase in noninterest expense	4.18		3.63	
Operating Leverage	3.19	%	4.98	%
Increase in total revenue, Underlying (non-GAAP)	7.58	%	9.90	%
Increase in noninterest expense, Underlying (non-GAAP)	4.30		3.10	
Operating Leverage, Underlying (non-GAAP)	3.28	%	6.80	%

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

(in millions, except share, per-share and ratio data)	Ref.	Year Ended December 31, 2018	2017
Net income per average common share - basic and diluted, Underlying:			
Average common shares outstanding - basic (GAAP)	K	478,822,072	502,157,440
Average common shares outstanding - diluted (GAAP)	L	480,430,741	503,685,091
Net income per average common share - basic (GAAP)	D/K	$3.54	$3.26
Net income per average common share - diluted (GAAP)	D/L	3.52	3.25
Net income per average common share-basic, Underlying (non-GAAP)	X/K	3.57	2.59
Net income per average common share-diluted, Underlying (non-GAAP)	X/L	3.56	2.58
Dividend payout ratio and dividend payout ratio, Underlying:			
Cash dividends declared and paid per common share	M	$0.98	$0.64
Dividend payout ratio	M/(D/K)	28 %	20 %
Dividend payout ratio, Underlying (non-GAAP)	M/(X/K)	27	25
Impact of Underlying items on net income per average common share - basic:			
Notable items:			
FAMC integration costs		($0.04)	$—
Tax and tax-related notable items:			
Tax Legislation DTL adjustment		0.06	0.66
Colleague and community reinvestment		—	(0.03)
Settlement of certain tax matters		—	0.04
Gain on mortgage/home equity TDR Transaction		—	0.02
Home equity operational items		—	—
TOP efficiency initiatives and other actions		(0.05)	(0.02)
Impact of Underlying items on net income per average common share - basic		($0.03)	$0.67
Impact of Underlying items on net income per average common share - diluted:			
Notable items:			
FAMC integration costs		($0.05)	$—
Tax and tax-related notable items:			
Tax Legislation DTL adjustment		0.06	0.66
Colleague and community reinvestment		—	(0.03)
Settlement of certain tax matters		—	0.04
Gain on mortgage/home equity TDR Transaction		—	0.02
Home equity operational items		—	—
TOP efficiency initiatives and other actions		(0.05)	(0.02)
Impact of Underlying items on net income per average common share - diluted		($0.04)	$0.67

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

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

		Year Ended December 31,	
(in millions, except share, per-share and ratio data)	Ref.	2017	2016
Noninterest income, Adjusted/Underlying:			
Noninterest income (GAAP)		$1,534	$1,497
Less: Notable items			
Gain on mortgage/home equity TDR Transaction		17	72
Lease impairment credit-related costs		(11)	—
Asset Finance repositioning		—	(5)
Noninterest income, Adjusted/Underlying (non-GAAP)		$1,528	$1,430
Total revenue, Adjusted/Underlying:			
Total revenue (GAAP)	A	$5,707	$5,255
Less: Notable items			
Gain on mortgage/home equity TDR Transaction		17	72
Lease impairment credit-related costs		(11)	—
Asset Finance repositioning		—	(5)
Total revenue, Adjusted/Underlying (non-GAAP)	S	$5,701	$5,188
Noninterest expense, Adjusted/Underlying:			
Noninterest expense (GAAP)	B	$3,474	$3,352
Less: Notable items			
Tax and tax-related notable items:			
Colleague and community reinvestment		22	—
Home equity operational items		3	8
TOP efficiency initiatives		15	17
Lease impairment credit-related costs		15	—
Asset Finance repositioning		—	11
Noninterest expense, Adjusted/Underlying (non-GAAP)	T	$3,419	$3,316
Pre-provision profit:			
Total revenue (GAAP)	A	$5,707	$5,255
Less: Noninterest expense (GAAP)	B	3,474	3,352
Pre-provision profit (GAAP)		$2,233	$1,903
Pre-provision profit, Adjusted/Underlying:			
Total revenue, Adjusted/Underlying (non-GAAP)	S	$5,701	$5,188
Less: Noninterest expense, Adjusted/Underlying (non-GAAP)	T	3,419	3,316
Pre-provision profit, Adjusted/Underlying (non-GAAP)		$2,282	$1,872
Total credit-related costs, Adjusted/Underlying:			
Provision for credit losses (GAAP)		$321	$369
Add: Lease impairment credit-related costs		26	—
Total credit-related costs, Adjusted/Underlying (non-GAAP)		$347	$369
Income before income tax expense, Adjusted/Underlying:			
Income before income tax expense (GAAP)	I	$1,912	$1,534
Less: Notable items			
Tax and tax-related notable items:			
Colleague and community reinvestment		(22)	—

Gain on mortgage/home equity TDR Transaction		17	72
Home equity operational items		(3)	(8)
TOP efficiency initiatives		(15)	(17)
Asset Finance repositioning		—	(16)
Income before income tax expense, Adjusted/Underlying (non-GAAP)	U	$1,935	$1,503

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

(in millions, except share, per-share and ratio data)	Ref.	Year Ended December 31, 2017	2016
Income tax expense and effective income tax rate, Adjusted/Underlying:			
Income tax expense (GAAP)	J	$260	$489
Less: Notable items			
Tax and tax-related notable items:			
Tax Legislation DTL adjustment		(331)	—
Colleague and community reinvestment		(9)	—
Settlement of certain tax matters		(23)	—
Gain on mortgage/home equity TDR Transaction		7	27
Home equity operational items		(1)	(3)
TOP efficiency initiatives		(6)	(6)
Asset Finance repositioning		—	(6)
Income tax expense, Adjusted/Underlying (non-GAAP)	V	$623	$477
Effective income tax rate (GAAP)	J/I	13.62 %	31.88 %
Effective income tax rate, Adjusted/Underlying (non-GAAP)	V/U	32.20	31.74
Net income, Adjusted/Underlying:			
Net income (GAAP)	C	$1,652	$1,045
Add: Notable items, net of tax expense			
Tax and tax-related notable items:			
Tax Legislation DTL adjustment		(331)	—
Colleague and community reinvestment		13	—
Settlement of certain tax matters		(23)	—
Gain on mortgage/home equity TDR Transaction		(10)	(45)
Home equity operational items		2	5
TOP efficiency initiatives		9	11
Asset Finance repositioning		—	10
Net income, Adjusted/Underlying (non-GAAP)	W	$1,312	$1,026
Net income available to common stockholders, Adjusted/Underlying:			
Net income available to common stockholders (GAAP)	D	$1,638	$1,031
Add: Notable items, net of tax expense			
Tax and tax-related notable items:			
Tax Legislation DTL adjustment		(331)	—
Colleague and community reinvestment		13	—
Settlement of certain tax matters		(23)	—
Gain on mortgage/home equity TDR Transaction		(10)	(45)
Home equity operational items		2	5
TOP efficiency initiatives		9	11
Asset Finance repositioning		—	10
Net income available to common stockholders, Adjusted/Underlying (non-GAAP)	X	$1,298	$1,012
Return on average common equity and return on average common equity, Adjusted/Underlying:			
Average common equity (GAAP)	E	$19,618	$19,698
Return on average common equity	D/E	8.35 %	5.23 %
Return on average common equity, Adjusted/Underlying (non-GAAP)	X/E	6.62	5.14

Return on average tangible common equity and return on average tangible common equity, Adjusted/Underlying:					
Average common equity (GAAP)	E	$19,618		$19,698	
Less: Average goodwill (GAAP)		6,883		6,876	
Less: Average other intangibles (GAAP)		2		2	
Add: Average deferred tax liabilities related to goodwill (GAAP)		534		502	
Average tangible common equity	F	$13,267		$13,322	
Return on average tangible common equity	D/F	12.35	%	7.74	%
Return on average tangible common equity, Adjusted/Underlying (non-GAAP)	X/F	9.79		7.60	
Return on average total assets and return on average total assets, Adjusted/Underlying:					
Average total assets (GAAP)	G	$149,953		$143,183	
Return on average total assets	C/G	1.10	%	0.73	%
Return on average total assets, Adjusted/Underlying (non-GAAP)	W/G	0.88		0.72	

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

(in millions, except share, per-share and ratio data)	Ref.	Year Ended December 31, 2017	2016
Return on average total tangible assets and return on average total tangible assets, Adjusted/Underlying:			
Average total assets (GAAP)	G	$149,953	$143,183
Less: Average goodwill (GAAP)		6,883	6,876
Less: Average other intangibles (GAAP)		2	2
Add: Average deferred tax liabilities related to goodwill (GAAP)		534	502
Average tangible assets	H	$143,602	$136,807
Return on average total tangible assets	C/H	1.15 %	0.76 %
Return on average total tangible assets, Adjusted/Underlying (non-GAAP)	W/H	0.91	0.75
Efficiency ratio and efficiency ratio, Adjusted/Underlying:			
Efficiency ratio	B/A	60.87 %	63.80 %
Efficiency ratio, Adjusted/Underlying (non-GAAP)	T/S	59.96	63.92
Operating leverage and operating leverage, Adjusted/Underlying:			
Increase in total revenue		8.61 %	8.93 %
Increase in noninterest expense		3.63	2.85
Operating Leverage		4.98 %	6.08 %
Increase in total revenue, Adjusted/Underlying (non-GAAP)		9.90 %	7.55 %
Increase in noninterest expense, Adjusted/Underlying (non-GAAP)		3.10	3.33
Operating Leverage, Underlying (non-GAAP)		6.80 %	4.22 %
Net income per average common share - basic and diluted, Adjusted/Underlying:			
Average common shares outstanding - basic (GAAP)	K	502,157,440	522,093,545
Average common shares outstanding - diluted (GAAP)	L	503,685,091	523,930,718
Net income per average common share - basic (GAAP)	D/K	$3.26	$1.97
Net income per average common share - diluted (GAAP)	D/L	3.25	1.97
Net income per average common share-basic, Adjusted/Underlying (non-GAAP)	X/K	2.59	1.94
Net income per average common share-diluted, Adjusted/Underlying (non-GAAP)	X/L	2.58	1.93
Dividend payout ratio and dividend payout ratio, Adjusted/Underlying:			
Cash dividends declared and paid per common share	M	$0.64	$0.46
Dividend payout ratio	M/(D/K)	20 %	23 %
Dividend payout ratio, Adjusted/Underlying (non-GAAP)	M/(X/K)	25	24
Impact of Adjusted/Underlying items on net income per average common share - basic:			
Notable items:			
Tax and tax-related notable items:			
Tax Legislation DTL adjustment		$0.66	$—
Colleague and community reinvestment		(0.03)	—
Settlement of certain tax matters		0.04	—
Gain on mortgage/home equity TDR Transaction		0.02	0.08
Home equity operational items		—	(0.01)
TOP efficiency initiatives		(0.02)	(0.02)
Asset Finance repositioning		—	(0.02)
Impact of Adjusted/Underlying items on net income per average common share - basic		$0.67	$0.03

Impact of Adjusted/Underlying items on net income per average common share - diluted:		
Notable items:		
Tax and tax-related notable items:		
Tax Legislation DTL adjustment	$0.66	$—
Colleague and community reinvestment	(0.03)	—
Settlement of certain tax matters	0.04	—
Gain on mortgage/home equity TDR Transaction	0.02	0.09
Home equity operational items	—	(0.01)
TOP efficiency initiatives	(0.02)	(0.02)
Asset Finance repositioning	—	(0.02)
Impact of Adjusted/Underlying items on net income per average common share - diluted	$0.67	$0.04

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

CITIZENS FINANCIAL GROUP, INC.
FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CITIZENS FINANCIAL GROUP, INC.

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Management assessed the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2018 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework (2013). Based on that assessment, management concluded that, as of December 31, 2018, the Company's internal control over financial reporting is effective.

The Company's internal control over financial reporting as of December 31, 2018 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their accompanying report, appearing on page 115, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

CITIZENS FINANCIAL GROUP, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Shareholders and Board of Directors of
Citizens Financial Group, Inc.
Providence, Rhode Island

Opinion on the Consolidated Financial Statements
We have audited the accompanying consolidated balance sheets of Citizens Financial Group, Inc. and its subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.
Basis for Opinion
These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.
/s/ Deloitte & Touche LLP

Boston, Massachusetts
February 21, 2019

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

CITIZENS FINANCIAL GROUP, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Citizens Financial Group, Inc. and its subsidiaries (the “Company”) as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated February 21, 2019, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte & Touche LLP

Boston, Massachusetts
February 21, 2019

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)	December 31, 2018	December 31, 2017
ASSETS:		
Cash and due from banks	$1,081	$987
Interest-bearing cash and due from banks	2,993	2,045
Interest-bearing deposits in banks	148	192
Debt securities available for sale, at fair value (including $363 and $91 pledged to creditors, respectively) [(1)]	19,895	20,157
Debt securities held to maturity (fair value of $4,041 and $4,668, respectively)	4,165	4,685
Other investment securities, at fair value	181	169
Other investment securities, at cost	834	722
Loans held for sale, at fair value	1,219	497
Other loans held for sale	101	221
Loans and leases	116,660	110,617
Less: Allowance for loan and lease losses	(1,242)	(1,236)
Net loans and leases	115,418	109,381
Derivative assets	317	617
Premises and equipment, net	791	685
Bank-owned life insurance	1,698	1,656
Goodwill	6,923	6,887
Due from broker	—	6
Other assets	4,754	3,429
TOTAL ASSETS	$160,518	$152,336
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$29,458	$29,279
Interest-bearing	90,117	85,810
Total deposits	119,575	115,089
Federal funds purchased and securities sold under agreements to repurchase	1,156	815
Other short-term borrowed funds	1,653	1,856
Derivative liabilities	292	310
Deferred taxes, net	573	571
Long-term borrowed funds	14,433	11,765
Other liabilities	2,019	1,660
TOTAL LIABILITIES	139,701	132,066
Contingencies (refer to Note 18)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $25.00 par value, authorized 100,000,000 shares	840	247
Common stock:		
$0.01 par value, 1,000,000,000 shares authorized; 566,819,863 shares issued and 466,007,984 shares outstanding at December 31, 2018 and 565,850,984 shares issued and 490,812,912 shares outstanding at December 31, 2017	6	6
Additional paid-in capital	18,815	18,781
Retained earnings	5,385	4,164
Treasury stock, at cost, 100,811,879 and 75,038,072 shares at December 31, 2018 and December 31, 2017, respectively	(3,133)	(2,108)

Accumulated other comprehensive loss	(1,096)	(820)
TOTAL STOCKHOLDERS’ EQUITY	20,817	20,270
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$160,518	$152,336

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
(in millions, except share and per-share data)	2018	2017	2016
INTEREST INCOME:			
Interest and fees on loans and leases	$5,010	$4,249	$3,653
Interest and fees on loans held for sale, at fair value	37	18	15
Interest and fees on other loans held for sale	10	10	6
Investment securities	672	625	584
Interest-bearing deposits in banks	29	18	8
Total interest income	5,758	4,920	4,266
INTEREST EXPENSE:			
Deposits	785	441	270
Federal funds purchased and securities sold under agreements to repurchase	6	3	2
Other short-term borrowed funds	57	31	40
Long-term borrowed funds	378	272	196
Total interest expense	1,226	747	508
Net interest income	4,532	4,173	3,758
Provision for credit losses	326	321	369
Net interest income after provision for credit losses	4,206	3,852	3,389
NONINTEREST INCOME:			
Service charges and fees	513	516	522
Card fees	244	233	203
Capital markets fees	179	194	136
Trust and investment services fees	171	158	146
Mortgage banking fees	152	108	112
Letter of credit and loan fees	128	121	112
Foreign exchange and interest rate products	126	109	103
Securities gains, net	19	11	16
Net securities impairment losses recognized in earnings	(3)	(7)	(12)
Other income	67	91	159
Total noninterest income	1,596	1,534	1,497
NONINTEREST EXPENSE:			
Salaries and employee benefits	1,880	1,766	1,714
Outside services	447	404	377
Occupancy	333	319	307
Equipment expense	275	263	263
Amortization of software	189	180	170
Other operating expense	495	542	521
Total noninterest expense	3,619	3,474	3,352
Income before income tax expense	2,183	1,912	1,534
Income tax expense	462	260	489
NET INCOME	$1,721	$1,652	$1,045
Net income available to common stockholders	$1,692	$1,638	$1,031
Weighted-average common shares outstanding:			
Basic	478,822,072	502,157,440	522,093,545
Diluted	480,430,741	503,685,091	523,930,718
Per common share information:			
Basic earnings	$3.54	$3.26	$1.97

Diluted earnings	3.52	3.25	1.97

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
(in millions)	2018	2017	2016
Net income	$1,721	$1,652	$1,045
Other comprehensive loss:			
Net unrealized derivative instrument losses arising during the periods, net of income taxes of ($11), ($9) and ($38), respectively	(33)	(14)	(62)
Reclassification adjustment for net derivative losses (gains) included in net income, net of income taxes of $10, ($9) and ($22), respectively	33	(16)	(36)
Net unrealized debt securities losses arising during the periods, net of income taxes of ($79), ($4) and ($82), respectively	(239)	(6)	(139)
Other-than-temporary impairment not recognized in earnings on debt securities, net of income taxes of ($1), $0 and ($10), respectively	(3)	—	(17)
Reclassification of net debt securities gains to net income, net of income taxes of ($4), ($2) and ($2), respectively	(12)	(2)	(2)
Employee benefit plans:			
Actuarial (loss) gain, net of income taxes of ($14), $12 and ($20), respectively	(35)	19	(34)
Amortization of actuarial loss, net of income taxes of $3, $5 and $6, respectively	14	13	10
Amortization of prior service cost, net of income taxes of $0, $0 and $0, respectively	(1)	(1)	(1)
Total other comprehensive loss, net of income taxes	(276)	(7)	(281)
Total comprehensive income	$1,445	$1,645	$764

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in millions)	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount					
Balance at January 1, 2016	—	$247	528	$6	$18,725	$1,913	($858)	($387)	$19,646
Dividends to common stockholders	—	—	—	—	—	(241)	—	—	(241)
Dividend to preferred stockholders	—	—	—	—	—	(14)	—	—	(14)
Treasury stock purchased	—	—	(17)	—	(25)	—	(405)	—	(430)
Share-based compensation plans	—	—	1	—	12	—	—	—	12
Employee stock purchase plan shares purchased	—	—	—	—	10	—	—	—	10
Total comprehensive income:									
Net income	—	—	—	—	—	1,045	—	—	1,045
Other comprehensive loss	—	—	—	—	—	—	—	(281)	(281)
Total comprehensive income	—	—	—	—	—	1,045	—	(281)	764
Balance at December 31, 2016	—	$247	512	$6	$18,722	$2,703	($1,263)	($668)	$19,747
Dividends to common stockholders	—	—	—	—	—	(322)	—	—	(322)
Dividend to preferred stockholders	—	—	—	—	—	(14)	—	—	(14)
Treasury stock purchased	—	—	(22)	—	25	—	(845)	—	(820)
Share-based compensation plans	—	—	1	—	22	—	—	—	22
Employee stock purchase plan shares purchased	—	—	—	—	12	—	—	—	12
Total comprehensive income:									
Net income	—	—	—	—	—	1,652	—	—	1,652
Other comprehensive loss	—	—	—	—	—	—	—	(7)	(7)
Total comprehensive income	—	—	—	—	—	1,652	—	(7)	1,645
Reclassification of tax effects resulting from the 2017 Tax Legislation	—	—	—	—	—	145	—	(145)	—
Balance at December 31, 2017	—	$247	491	$6	$18,781	$4,164	($2,108)	($820)	$20,270
Dividends to common stockholders	—	—	—	—	—	(471)	—	—	(471)
Dividends to preferred stockholders	—	—	—	—	—	(29)	—	—	(29)
Issuance of preferred stock	1	593	—	—	—	—	—	—	593
Treasury stock purchased	—	—	(26)	—	—	—	(1,025)	—	(1,025)
Share-based compensation plans	—	—	1	—	20	—		—	20
Employee stock purchase plan shares purchased	—	—	—	—	14	—	—	—	14
Total comprehensive income:									
Net income	—	—	—	—	—	1,721	—	—	1,721
Other comprehensive loss	—	—	—	—	—	—	—	(276)	(276)
Total comprehensive income	—	—	—	—	—	1,721	—	(276)	1,445
Balance at December 31, 2018	1	$840	466	$6	$18,815	$5,385	($3,133)	($1,096)	$20,817

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(in millions)	2018	2017	2016
OPERATING ACTIVITIES			
Net income	$1,721	$1,652	$1,045
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	326	321	369
Originations of mortgage loans held for sale	(8,036)	(2,911)	(2,829)
Proceeds from sales of mortgage loans held for sale	8,149	3,161	2,652
Purchases of commercial loans held for sale	(1,944)	(2,057)	(1,355)
Proceeds from sales of commercial loans held for sale	1,857	1,963	1,335
Depreciation, amortization and accretion	489	487	515
Mortgage servicing rights valuation recovery	(3)	(2)	(4)
Debt securities impairment	3	7	12
Deferred income taxes	97	(136)	153
Share-based compensation	41	48	23
Net gain on sales of:			
Debt securities	(19)	(11)	(16)
Equity securities	—	(1)	(3)
Premises and equipment	—	—	(2)
Other loans held for sale	—	(17)	(72)
Increase in other assets	(1,217)	(502)	(274)
Increase (decrease) in other liabilities	303	(119)	(59)
Net cash provided by operating activities	1,767	1,883	1,490
INVESTING ACTIVITIES			
Investment securities:			
Purchases of securities available for sale	(4,270)	(5,394)	(7,664)
Proceeds from maturities and paydowns of debt securities available for sale	3,258	3,470	3,785
Proceeds from sales of debt securities available for sale	998	1,257	1,966
Purchases of debt securities held to maturity	—	(171)	(523)
Proceeds from maturities and paydowns of debt securities held to maturity	522	561	720
Purchases of equity securities, at fair value	(162)	(326)	(246)
Proceeds from sales of equity securities, at fair value	150	253	220
Purchases of equity securities, at cost	(754)	(400)	(166)
Proceeds from sales of equity securities, at cost	642	637	87
Net decrease (increase) in interest-bearing deposits in banks	44	247	(83)
Purchases of mortgage servicing rights	(16)	(28)	—
Acquisition, net of cash acquired	(533)	—	—
Net increase in loans and leases	(6,445)	(3,634)	(9,074)
Net increase in bank-owned life insurance	(42)	(44)	(48)
Premises and equipment:			
Purchases	(232)	(253)	(138)
Proceeds from sales	—	—	3
Capitalization of software	(237)	(159)	(165)
Net cash used in investing activities	(7,077)	(3,984)	(11,326)

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

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CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Year Ended December 31,		
(in millions)	2018	2017	2016
FINANCING ACTIVITIES			
Net increase in deposits	4,486	5,285	7,265
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	341	(333)	346
Net decrease in other short-term borrowed funds	(5,211)	(4,959)	(3,186)
Proceeds from issuance of long-term borrowed funds	22,503	15,363	15,144
Repayments of long-term borrowed funds	(14,837)	(12,751)	(8,429)
Treasury stock purchased	(1,025)	(820)	(430)
Net proceeds from issuance of preferred stock	593	—	—
Dividends declared and paid to common stockholders	(471)	(322)	(241)
Dividends declared and paid to preferred stockholders	(14)	(14)	(14)
Payments of employee tax withholding for share-based compensation	(13)	(20)	—
Net cash provided by financing activities	6,352	1,429	10,455
Increase (decrease) in cash and cash equivalents[(a)]	1,042	(672)	619
Cash and cash equivalents at beginning of period[(a)]	3,032	3,704	3,085
Cash and cash equivalents at end of period[(a)]	$4,074	$3,032	$3,704
Supplemental disclosures:			
Interest paid	$1,184	$716	$505
Income taxes paid	241	371	94
Non-cash items:			
Loans securitized and transferred to securities available for sale	$142	$134	$68
Stock issued for share-based compensation plans	20	22	12
Stock issued for Employee Stock Purchase Plan	14	12	10
Due from broker for securities sold but not settled	—	6	—

[(a)] Cash and cash equivalents include cash and due from banks and interest-bearing cash and due from banks as reflected on the Consolidated Balance Sheets.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accounting and reporting policies of Citizens Financial Group, Inc. conform to GAAP. The Company's principal business activity is banking, conducted through its subsidiaries Citizens Bank, National Association and Citizens Bank of Pennsylvania. On January 2, 2019, we consolidated our banking subsidiaries via a merger of CBPA into CBNA in order to streamline governance and enterprise risk management, improve CBNA's risk profile and gain operational efficiencies. CBNA is now our primary subsidiary and our sole banking subsidiary.

Basis of Presentation

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses and the fair value of MSRs.

Significant Accounting Policies

Interest Income Recognition

Interest income on loans and securities classified as AFS or HTM is determined using the effective interest method. This method calculates periodic interest income at a constant effective yield on the net investment in the loan or security, to provide a constant rate of return over the terms of the financial assets.

Transfer of Financial Assets

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

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Acquisition

On August 1, 2018, the Company acquired certain assets and assumed certain liabilities of Franklin American Mortgage Company ("FAMC"), a Franklin, Tennessee-based national mortgage servicing and origination firm, for total consideration of $582 million. As part of this transaction, the Company expanded its mortgage servicing position with the addition of an MSR portfolio which had an acquisition date fair value of $590 million. Refer to Note 8 "Mortgage Banking" for more information. The Company initially recognized goodwill of $59 million and other intangibles of $32 million related to the transaction.

As of December 31, 2018, the Company recognized goodwill of $36 million, after a $23 million purchase price allocation adjustment given higher value attributed to purchased net assets, and other intangibles of $30 million, net of $2 million of amortization expense. Refer to Note 9 "Goodwill and Intangible Assets" for more information. The Company expects that some adjustments of the fair values assigned to the assets acquired and liabilities assumed at August 1, 2018 may subsequently be recorded, although any adjustments are not expected to be material.

Accounting Pronouncements Adopted in 2018

Pronouncement	Summary of Guidance	Effects on Financial Statements
Disclosure Requirements - Defined Benefit Plan Issued August 2018	• Amends disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement defined benefit plans. • The guidance eliminates requirements for certain disclosures that are no longer considered relevant or cost beneficial and requires new disclosures that are expected to enhance the usefulness of the financial statements.	• Citizens adopted the new standard on December 31, 2018. • Adoption did not have a material impact on the Company's Consolidated Financial Statements.

- Retrospective application is required for all periods presented.

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Revenue Recognition: Revenue from Contracts with Customers Issued May 2014	• Requires that revenue from contracts with customers be recognized upon transfer of control of a good or service in the amount of consideration expected to be received. • Changes the accounting for certain contract costs including whether they may be offset against revenues in the Consolidated Statements of Operations. • Requires new qualitative and quantitative disclosures, including information about disaggregation of revenue and performance obligations. • May be adopted using a full retrospective approach or a modified cumulative effect approach wherein the guidance is applied only to existing contracts as of the date of initial adoption and to new contracts transacted after that date.	• Citizens adopted the new standard on January 1, 2018 under the modified retrospective method. Net interest income on financial assets and liabilities is explicitly excluded from the scope of the pronouncement. • Adoption of the new standard did not result in a change in the timing or amount of revenue recognized from contracts with customers. Citizens did not recognize a cumulative adjustment to Retained Earnings upon adoption. • Effective January 1, 2018, underwriting fees are presented on a gross basis in capital market fees, while underwriting costs are presented in other operating expense. Prior to adoption, such costs were presented net of the related underwriting fees.
Stock Compensation Issued May 2017	• Requires modification accounting unless the fair value, vesting conditions, and classification of the modified award are the same as the original award immediately before the modification. • Applied prospectively to all modifications of share-based awards after the adoption date.	• Citizens adopted the new standard as of January 1, 2018. • Adoption did not have an impact on the Company’s Consolidated Financial Statements.
Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost Issued March 2017	• Requires the service cost component of net periodic pension and postretirement benefit cost to be reported separately in the Consolidated Statements of Operations from the other components (e.g., expected return on assets, interest costs, amortization of gains/losses and prior service costs). •	• Citizens retrospectively adopted the new standard as of January 1, 2018. • Adoption did not have an impact on the Company’s net income. • Citizens reclassified prior period amounts in the Consolidated Statements of Operations,

	Requires presentation in the Consolidated Statements of Operations of the service cost component in the same line item as other employee compensation costs and presentation of the other components in a different line item from the service cost component. • Retrospective application is required for all periods presented.	which resulted in an immaterial increase in salaries and employee benefits and a corresponding decrease in other operating expense.
Recognition and Measurement of Financial Assets and Financial Liabilities Issued January 2016	• Requires equity securities with readily determinable fair values to be measured at fair value on the balance sheet, with changes in the fair value recognized through earnings. • Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or in the notes to the financial statements. • Makes several other targeted amendments to the existing accounting and disclosure requirements for financial instruments, including revised guidance related to valuation allowance assessments when recognizing deferred tax assets on unrealized losses on debt securities available for sale.	• Citizens adopted the new standard as of January 1, 2018. • Adoption had an immaterial impact on the Company’s Consolidated Financial Statements.
Classification of Certain Cash Receipts and Cash Payments Issued August 2016	• Amends guidance on specific cashflows to determine the appropriate classification as operating, investing or financing activities which has required significant judgment. • The application of judgment has resulted in diversity in how certain cash receipts and cash payments are classified.	• Citizens adopted the new standard as of January 1, 2018. • Adoption did not have an impact on the Company’s Consolidated Financial Statements.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Pronouncements Pending Adoption

Pronouncement	Summary of Guidance	Effects on Financial Statements
Derivatives and Hedging Issued August 2017	• Reduces the complexity and operational burdens of the current hedge accounting model and portrays more clearly the effects of hedge accounting in the financial statements. • Modifies current requirements to facilitate the application of hedge accounting to partial-term hedges, hedges of prepayable financial instruments, and other strategies. Adoption of these optional changes would occur on a prospective basis. • Requires the effects of fair value hedges to be classified in the same income statement line as the earnings effect of the hedged item. Adoption of this change will occur on a prospective basis. • Requires all effects of cash flow hedges to be deferred in other comprehensive income until the hedged cash flows affect earnings. Periodic hedge ineffectiveness will no longer be recognized in earnings. Adoption of this change will occur on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption.	• Required effective date: January 1, 2019. Early adoption is permitted. The Company will not adopt the guidance prior to the required effective date. • Upon adoption, the Company elected to transfer $755 million of securities eligible to be hedged under the last-of-layer method from the HTM portfolio to the AFS portfolio. At the time of the transfer, $15 million of unrealized losses were recognized in OCI. The remaining transition entries required upon adoption are not expected to have a material impact on the Company's Consolidated Financial Statements.
Leases Issued February 2016	• Requires lessees to recognize a right-of-use asset and corresponding lease liability for all leases with a lease term of greater than one year. • Requires lessees and lessors to classify most leases using principles similar to existing lease accounting, but eliminates the "bright line" classification tests. • Requires that for finance leases, a lessee recognize interest expense on the lease liability separately from the amortization of the	• Required effective date: January 1, 2019. Early adoption is permitted. The Company will not adopt the guidance prior to the effective date. • The Company occupies certain banking offices and equipment under non-cancelable operating lease agreements, which currently are not reflected on its Consolidated Balance Sheets. • The Company will adopt the guidance through a cumulative-effect adjustment to retained earnings on January 1, 2019. Periods prior to January 1,

right-of-use asset in the Consolidated Statements of Operations, while for operating leases, such amounts should be recognized as a combined expense.	2019 will not be adjusted.
• Requires expanded disclosures about the nature and terms of lease agreements.	• Upon adoption, the Company will recognize a right-of-use asset and corresponding lease liability of approximately $750 million in its Consolidated Balance Sheets for non-cancelable operating lease agreements.
• Provides the option to adopt using either a modified cumulative-effect approach wherein the guidance is applied to all periods presented, or through a cumulative-effect adjustment beginning in the period of adoption.	• Adoption of the guidance will not result in a material change to the timing of expense recognition on the Consolidated Statements of Operations.
• Requires companies with land easements to assess whether the easement meets the definition of a lease before applying other accounting guidance.	

Financial Instruments - Credit Losses Issued June 2016	• Replaces existing incurred loss impairment guidance and establishes a single allowance framework for financial assets carried at amortized cost (including securities HTM), which will reflect management's estimate of credit losses over the full remaining expected life of the financial assets. • Amends existing impairment guidance for securities AFS to incorporate an allowance, which will allow for reversals of impairment losses in the event that the credit of an issuer improves. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.	• Required effective date: January 1, 2020. Early adoption permitted on January 1, 2019. The Company will not adopt the guidance prior to the required effective date. • A company-wide, cross-discipline governance structure to implement the new standard has been in place for more than 18 months. The Company is currently identifying and researching key interpretive issues, revising policies and procedures and completing the development and configuration of most loss forecasting models to meet the requirements of the new guidance. The implementation team is also in the process of assessing forecast accuracy, how the reasonable and supportable forecast period will be determined and documented as well as the impacts of that decision in different parts of the credit cycle, and expects to begin parallel testing in the second half of 2019. • The Company expects the standard will result in earlier recognition of credit losses and an increase in the ACL, as it will cover estimated credit losses over the full remaining expected life of loans and commitments and will consider future reasonable and supportable changes in macroeconomic conditions. Since the magnitude of the increase in the Company's ACL will be impacted by economic conditions, forecasted economic conditions, credit quality and trends in the Company's portfolio at the time of adoption, the quantitative impact cannot yet be reasonably estimated.
Implementation Costs Incurred in a Cloud Computing Arrangement Issued August 2018	• Requires implementation costs incurred in a cloud computing arrangement that is a service contract be deferred and recognized over the term of the arrangement if those costs would be capitalized in a software licensing arrangement. • Requires amortization expense be presented in the same income statement line item as the related hosting service arrangement expense.	• Required effective date: January 1, 2020. Early adoption is permitted. The Company is evaluating whether it will adopt this guidance prior to the required effective date. • Adoption is not expected to have a material impact on the Company's Consolidated Financial Statements.

	• Permits adoption prospectively for all implementation costs incurred after adoption or retrospectively through a cumulative-effect adjustment as of the beginning of the first period presented.	
Disclosure Requirements - Fair Value Measurements Issued August 2018	• Amends disclosure requirements on fair value measurements. • The guidance eliminates requirements for certain disclosures that are no longer considered relevant or cost beneficial, requires new disclosures and modifies existing disclosures that are expected to enhance the usefulness of the financial statements. • Prospective application is required for new disclosure requirements. • Retrospective application is required for all other amendments for all periods presented.	• Required effective date: January 1, 2020. Early adoption is permitted. The Company does not intend to adopt this guidance prior to the required effective date. • Adoption is not expected to have a material impact on the Company’s Consolidated Financial Statements.

NOTE 2 - CASH AND DUE FROM BANKS

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

The Company's subsidiary banks maintain certain average reserve balances and compensating balances for check clearing and other services with the FRB. At December 31, 2018 and 2017, the balance of deposits at the FRB amounted to $3.0 billion and $2.0 billion, respectively. Average balances maintained with the FRB during the years ended December 31, 2018, 2017, and 2016 exceeded amounts required by law for the FRB's requirements. All amounts, both required and excess reserves, held at the FRB currently earn interest at a fixed rate of 240 basis points. Citizens recorded interest income on FRB deposits of $28 million, $16 million, and $7 million for the years ended December 31, 2018, 2017, and 2016, respectively, in interest-bearing deposits in banks in the Consolidated Statements of Operations.

NOTE 3 - SECURITIES

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

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

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

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

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

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

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

(in millions)	December 31, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities Available for Sale, at Fair Value								
U.S. Treasury and other	$24	$—	$—	$24	$12	$—	$—	$12
State and political subdivisions	5	—	—	5	6	—	—	6
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	20,211	28	(605)	19,634	20,065	40	(277)	19,828
Other/non-agency	236	3	(7)	232	311	7	(7)	311
Total mortgage-backed securities	20,447	31	(612)	19,866	20,376	47	(284)	20,139
Total debt securities available for sale, at fair value	$20,476	$31	($612)	$19,895	$20,394	$47	($284)	$20,157
Debt Securities Held to Maturity								
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	$3,425	$—	($132)	$3,293	$3,853	$7	($46)	$3,814
Other/non-agency	740	8	—	748	832	22	—	854
Total mortgage-backed securities	4,165	8	(132)	4,041	4,685	29	(46)	4,668
Total debt securities held to maturity	$4,165	$8	($132)	$4,041	$4,685	$29	($46)	$4,668
Equity Securities, at Fair Value								
Money market mutual fund investments	$181	$—	$—	$181	$165	$—	$—	$165
Other investments	—	—	—	—	4	—	—	4
Total equity securities, at fair value	$181	$—	$—	$181	$169	$—	$—	$169
Equity Securities, at Cost								
Federal Reserve Bank stock	$463	$—	$—	$463	$463	$—	$—	$463
Federal Home Loan Bank stock	364	—	—	364	252	—	—	252
Other equity securities	7	—	—	7	7	—	—	7
Total equity securities, at cost	$834	$—	$—	$834	$722	$—	$—	$722

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

	Distribution of Maturities				
(in millions)	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	Total
Amortized Cost:					
Debt securities available for sale					
U.S. Treasury and other	$24	$—	$—	$—	$24
State and political subdivisions	—	—	—	5	5
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	281	1,540	18,390	20,211
Other/non-agency	1	10	—	225	236
Total debt securities available for sale	25	291	1,540	18,620	20,476
Debt securities held to maturity:					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	3,425	3,425
Other/non-agency	—	—	—	740	740
Total debt securities held to maturity	—	—	—	4,165	4,165
Total amortized cost of debt securities	$25	$291	$1,540	$22,785	$24,641
Fair Value:					
Debt securities available for sale					
U.S. Treasury and other	$24	$—	$—	$—	$24
State and political subdivisions	—	—	—	5	5
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	274	1,505	17,855	19,634
Other/non-agency	1	10	—	221	232
Total debt securities available for sale	25	284	1,505	18,081	19,895
Debt securities held to maturity					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	3,293	3,293
Other/non-agency	—	—	—	748	748
Total debt securities held to maturity	—	—	—	4,041	4,041
Total fair value of debt securities	$25	$284	$1,505	$22,122	$23,936

Taxable interest income from investment securities as presented on the Consolidated Statements of Operations was $672 million, $625 million and $584 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Realized gains and losses on securities are presented below:

	Year Ended December 31,		
(in millions)	2018	2017	2016
Gains on sale of debt securities	$19	$11	$18

Losses on sale of debt securities	—	—	(2)
Debt securities gains, net	$19	$11	$16
Equity securities gains	$—	$1	$3

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

	December 31, 2018		December 31, 2017	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pledged against repurchase agreements	$344	$338	$358	$357
Pledged against FHLB borrowed funds	745	752	839	861
Pledged against derivatives, to qualify for fiduciary powers, and to secure public and other deposits as required by law	3,592	3,460	3,113	3,082

Citizens regularly enters into security repurchase agreements with unrelated counterparties. Repurchase agreements are financial transactions that involve the transfer of a security from one party to another and a subsequent transfer of substantially the same security back to the original party. The Company's repurchase agreements are typically short-term transactions and accounted for as secured borrowed funds on the Company's Consolidated Balance Sheets. When permitted by GAAP, the Company offsets short-term receivables associated with its reverse repurchase agreements against short-term payables associated with its repurchase agreements. Citizens recognized no offsetting of short-term receivables or payables as of December 31, 2018 or 2017. Citizens offsets certain derivative assets and derivative liabilities on the Consolidated Balance Sheets. For further information see Note 13 "Derivatives."
Securitizations of mortgage loans retained in the investment portfolio for the years ended December 31, 2018, 2017 and 2016, were $142 million, $134 million and $68 million, respectively. These securitizations include a substantive guarantee by a third party. In 2018 and 2017, the guarantors were FNMA, FHLMC, and GNMA. In 2016, the guarantors were FNMA and GNMA. The debt securities received from the guarantors are classified as AFS.

Impairment

Citizens reviews its securities for other-than-temporary impairment on a quarterly basis or more frequently if a potential loss triggering event occurs. The initial indicator of other-than-temporary impairment for both debt and equity securities is a decline in fair value below its recorded investment amount, as well as the severity and duration of the decline. For a security of which there has been a decline in fair value below the cost basis, the Company recognizes other-than-temporary impairment if (i) management has the intent to sell the security, (ii) it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, or (iii) the Company does not expect to recover the entire cost basis of the security.

Estimating the recovery of the amortized cost basis of a debt security is based upon an assessment of the cash flows expected to be collected. If the present value of cash flows expected to be collected, discounted at the security's original effective yield, is less than amortized cost, other-than-temporary impairment is considered to have occurred. In addition to these cash flow projections, several other characteristics of each debt security are reviewed when determining whether a credit loss exists and the period over which the debt security is expected to recover. These characteristics include: (i) the type of investment, (ii) various market factors affecting the fair value of the security (e.g., interest rates, spread levels, liquidity in the sector, etc.), (iii) the length and severity of impairment, and (iv) the public credit rating of the instrument.

Citizens estimates the portion of loss attributable to credit using a collateral loss model and integrated cash flow engine. The model calculates prepayment, default and loss severity assumptions using collateral performance data. These assumptions are used to produce cash flows that generate loss projections. These loss projections are reviewed on a quarterly basis by a cross-functional governance committee to determine whether security impairments are other-than-temporary.

If the Company intends to sell an impaired security, or if it is more likely than not it will be required to sell the security before recovery, the impairment loss recognized in current period earnings equals the difference between the amortized cost basis and the fair value of the security. If the Company does not intend to sell the impaired security, and it is not likely that the Company will be required to sell the impaired security, the other-than-temporary impairment write-down is separated into an amount representing the credit loss, which is recognized in current period earnings and the amount related to all other factors, is recognized in OCI.

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The following table presents the net securities impairment losses recognized in earnings:

(in millions)	Year Ended December 31, 2018	2017	2016
Other-than-temporary impairment:			
Total other-than-temporary impairment losses	($7)	($7)	($39)
Portions of loss recognized in other comprehensive income (before taxes)	4	—	27
Net securities impairment losses recognized in earnings	($3)	($7)	($12)

The following tables present mortgage-backed debt 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:

December 31, 2018	Less than 12 Months			12 Months or Longer			Total		
(dollars in millions)	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses
Federal agencies and U.S. government sponsored entities	166	$4,881	($89)	429	$15,124	($648)	595	$20,005	($737)
Other/non-agency	10	139	(1)	11	72	(6)	21	211	(7)
Total	176	$5,020	($90)	440	$15,196	($654)	616	$20,216	($744)

December 31, 2017	Less than 12 Months			12 Months or Longer			Total		
(dollars in millions)	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses
Federal agencies and U.S. government sponsored entities	294	$10,163	($97)	152	$8,061	($226)	446	$18,224	($323)
Other/non-agency	6	55	(1)	10	84	(6)	16	139	(7)
Total	300	$10,218	($98)	162	$8,145	($232)	462	$18,363	($330)

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

(in millions)	Year Ended December 31, 2018	2017	2016
Cumulative balance at beginning of period	$80	$75	$66
Credit impairments recognized in earnings on debt securities that have been previously impaired	3	7	12
Reductions due to increases in cash flow expectations on impaired debt securities [1]	(2)	(2)	(3)
Cumulative balance at end of period	$81	$80	$75

[1] Reported in interest income from investment securities on the Consolidated Statements of Operations.

Cumulative credit losses recognized in earnings for impaired AFS debt securities held as of December 31, 2018, 2017 and 2016 were $81 million, $80 million and $75 million, respectively. There were no credit losses recognized in earnings for the Company’s HTM portfolio as of December 31, 2018, 2017 and 2016. For the years ended

December 31, 2018, 2017 and 2016, Citizens incurred non-agency MBS credit related other-than-temporary impairment losses in earnings of $3 million, $7 million and $12 million, respectively.

There were no credit-impaired debt securities sold during the years ended December 31, 2018, 2017 and 2016, respectively. Citizens does not currently have the intent to sell these impaired debt securities, and it is not more likely than not that the Company will be required to sell these debt securities prior to the recovery of their amortized cost bases.

Citizens has determined that credit losses are not expected to be incurred on the remaining agency and non-agency MBS identified with unrealized losses as of December 31, 2018. The unrealized losses on these debt securities reflect non-credit-related factors such as changing interest rates and market liquidity. Therefore, Citizens has determined that these debt securities are not other-than-temporarily impaired because the Company does not currently have the intent to sell these debt securities, and it is not more likely than not that the Company will be required to sell these debt securities prior to the recovery of their amortized cost bases. Any subsequent increases in the valuation of impaired debt securities do not impact their recorded cost bases. Additionally, as of December 31, 2018 and 2016, there were $4 million and $27 million pre-tax non-credit related losses deferred in AOCI, respectively, and there was no pre-tax non-credit related losses deferred in AOCI for the year ended December 31, 2017.

NOTE 4 - LOANS AND LEASES

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

Interest income on loans is determined using the effective interest method. This method calculates periodic interest income at a constant effective yield on the net investment in the loan, to provide a constant rate of return over the term. Loans accounted for using the fair value option, are measured at fair value with corresponding changes recognized in noninterest income.

Loan commitment fees for loans that are likely to be drawn down, and other credit related fees, are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate over the loan term. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight-line basis.

Leases are classified at the inception of the lease. Direct financing lease receivables are reported at the aggregate of minimum lease payments receivable plus the estimated residual value of the leased property, less unearned and deferred income, including unamortized investment credits. Leveraged leases, which are a form of direct financing leases, are recorded net of related non-recourse debt. Lease residual values are reviewed at least annually for other-than-temporary impairment; with valuation adjustments recognized currently against other income for direct financing and leveraged leases. Unearned income is recognized as a constant percentage of outstanding lease financing balances over the lease term in interest income.

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

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A summary of the loans and leases portfolio is presented below:

	December 31,	
(in millions)	2018	2017
Commercial	$40,857	$37,562
Commercial real estate	13,023	11,308
Leases	2,903	3,161
Total commercial loans and leases	56,783	52,031
Residential mortgages	18,978	17,045
Home equity loans	1,073	1,392
Home equity lines of credit	12,710	13,483
Home equity loans serviced by others	399	542
Home equity lines of credit serviced by others	104	149
Automobile	12,106	13,204
Education	8,900	8,134
Credit cards	1,991	1,848
Other retail	3,616	2,789
Total retail loans	59,877	58,586
Total loans and leases (1)(2)	$116,660	$110,617

(1) Excluded from the table above are loans held for sale totaling $1.3 billion and $718 million as of December 31, 2018 and 2017, respectively.
(2) Mortgage loans serviced for others by the Company’s subsidiaries are not included above, and amounted to $69.6 billion and $20.3 billion at December 31, 2018 and 2017, respectively.

Loans are classified upon origination or acquisition as either held-for-investment or held-for-sale. This classification is based on management’s initial intent and ability to hold the loans for the foreseeable future. Loans held for sale are carried at the lower of cost or fair value, with any write-downs or subsequent recoveries charged to other income. Citizens accounts for certain loans held for sale, including those loans associated with its mortgage banking business and secondary loan trading desk, under the fair value option at fair value. Refer to Note 19, “Fair Value Measurements” for additional discussion.

During the year ended December 31, 2018 the Company purchased $457 million of education loans. During the year ended December 31, 2017, Citizens purchased $862 million of education loans and $153 million of automobile loans. During the year ended December 31, 2018, the Company sold $553 million of commercial loans. During the year ended December 31, 2017, the Company sold $603 million of commercial loans, $254 million of residential mortgage loans and $29 million of home equity loans. Also during the year ended December 31, 2017, Citizens sold $78 million of TDRs, including $49 million of residential mortgages and $29 million of home equity loans, which resulted in a pre-tax gain of $17 million reported in other income on the Consolidated Statements of Operations.

Loans held for sale at fair value totaled $1.2 billion and $497 million at December 31, 2018 and 2017, respectively. The December 31, 2018 balance consisted of residential mortgages originated for sale of $967 million and loans in the commercial trading portfolio of $252 million. The December 31, 2017 balance consisted of residential mortgages originated for sale of $326 million and loans in the commercial trading portfolio of $171 million. Other loans held for sale totaled $101 million and $221 million as of December 31, 2018 and 2017, respectively, and consisted of loans associated with the Company’s syndication business.

Loans pledged as collateral for FHLB borrowed funds, primarily residential mortgages and home equity loans, totaled $25.6 billion and $24.9 billion at December 31, 2018 and 2017, respectively. Loans pledged as collateral to support the contingent ability to borrow at the FRB discount window, if necessary, was primarily comprised of auto and commercial loans, and totaled $16.8 billion and $18.1 billion at December 31, 2018 and 2017, respectively.

Citizens is engaged in the leasing of equipment for commercial use, with primary lease concentrations to Fortune 1000 companies for large capital equipment acquisitions. A lessee is evaluated from a credit perspective using the same underwriting standards and procedures as for a loan borrower. A lessee is expected to make rental payments based on its cash flows and the viability of its operations. Leases are usually not evaluated as collateral-based transactions, and therefore the lessee’s overall financial strength is the most important credit evaluation factor.

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A summary of the investment in leases, before the ALLL, is presented below:

	December 31,	
(in millions)	2018	2017
Direct financing leases	$2,863	$3,122
Leveraged leases	40	39
Total leases	$2,903	$3,161

The components of the investment in leases, before the ALLL, are presented below:

	December 31,	
(in millions)	2018	2017
Total future minimum lease rentals	$2,075	$2,347
Estimated residual value of leased equipment (non-guaranteed)	1,091	1,072
Initial direct costs	13	15
Unearned income on minimum lease rentals and estimated residual value of leased equipment	(276)	(273)
Total leases	$2,903	$3,161

The future minimum lease rentals on direct financing and leveraged leases at December 31, 2018 are presented below:

Year	(in millions)
2019	$589
2020	461
2021	340
2022	258
2023	180
Thereafter	247
Total	$2,075

NOTE 5 - ALLOWANCE FOR CREDIT LOSSES, NONPERFORMING ASSETS, AND CONCENTRATIONS OF CREDIT RISK

Allowance for Credit Losses

Management’s estimate of probable losses in the Company’s loan and lease portfolios is recorded in the ALLL and the reserve for unfunded lending commitments. On a quarterly basis, Citizens evaluates the adequacy of the ALLL by performing reviews of certain individual loans and leases, analyzing changes in the composition, size and delinquency of the portfolio, reviewing previous loss experience and considering current and anticipated economic factors. The ALLL is established in accordance with the Company’s credit reserve policies, as approved by the Audit Committee of the Board of Directors. The Chief Financial Officer and Chief Risk Officer review the adequacy of the ALLL each quarter, together with risk management. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for credit losses. The ALLL is maintained at a level that management considers reflective of probable losses, and is established through charges to earnings in the form of a provision for credit losses. The ALLL may be adjusted to reflect the Company’s current assessment of various qualitative risks, factors and events that may not be measured in the statistical analysis. Such factors include trends in economic conditions, loan growth, back testing results, credit underwriting policy exceptions, regulatory and audit findings, and peer comparisons. Amounts determined to be uncollectible are deducted from the ALLL and subsequent recoveries, if any, are added to the ALLL. While management uses available information to estimate loan and lease losses, future additions to the ALLL may be necessary based on changes in economic conditions. There were no material changes in assumptions or estimation techniques compared with prior years that impacted the determination of the current year’s ALLL and the reserve for unfunded lending commitments.

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

For non-impaired retail loans, the ALLL is based upon an incurred loss model utilizing the probability of default, loss given default and exposure at default on an individual loan basis. When developing these factors, the Company may consider the loan product and collateral type, delinquency status, LTV ratio, lien position, borrower's credit, age of the loan, geographic location and incurred loss period. Certain retail portfolios, including education, unsecured personal loans, SBO home equity loans and commercial credit card receivables utilize roll rate or vintage models to estimate the ALLL.

For nonaccruing commercial and commercial real estate loans with an outstanding balance of $3 million or greater and for all commercial and commercial real estate TDRs (regardless of size), the Company conducts further analysis to determine the probable amount of loss and establishes a specific allowance for the loan, if appropriate. Citizens estimates the impairment amount by comparing the loan's carrying amount to the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan's observable market price. For collateral-dependent impaired commercial and commercial real estate loans, the excess of the Company's recorded investment in the loan over the fair value of the collateral, less cost to sell, is charged off to the ALLL.

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

In addition to the ALLL, the Company also estimates probable credit losses associated with off-balance sheet financial instruments such as standby letters of credit, financial guarantees and binding unfunded loan commitments.

Off-balance sheet financial instruments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk rating scale. These risk classifications, in conjunction with historical loss experience, economic conditions and performance trends within specific portfolio segments, result in the estimate of the reserve for unfunded lending commitments.

The ALLL and the reserve for unfunded lending commitments are reported on the Consolidated Balance Sheets in the allowance for loan and lease losses and in other liabilities, respectively. Provision for credit losses related to the loans and leases portfolio and the unfunded lending commitments are reported in the Consolidated Statements of Operations as provision for credit losses.

Loan Charge-Offs

Commercial loans are charged off when it is highly certain that a loss has been realized, including situations where a loan is determined to be both impaired and collateral-dependent. The determination of whether to recognize a charge-off involves many factors, including the prioritization of the Company's claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower's equity or the loan collateral.

Retail loans are generally fully charged-off or written down to the net realizable value of the underlying collateral, with an offset to the ALLL, upon reaching specified stages of delinquency in accordance with standards established by the FFIEC. Residential real estate loans, credit card loans and unsecured open end loans are generally charged off in the month in which the account becomes 180 days past due. Auto loans, education loans and unsecured closed end loans are generally charged off in the month in which the account becomes 120 days past due. Certain retail loans will be charged off earlier than the FFIEC standards in the following circumstances:

- A charge-off is recognized when a loan is modified in a TDR if the loan is determined to be collateral-dependent. A loan is considered to be collateral-dependent when repayment of the loan is expected to be provided solely by the underlying collateral, rather than by cash flows from the borrower's operations, income or other resources.

- Loans to borrowers who have experienced an event (e.g. bankruptcy) that suggests a loss is either known or highly certain are subject to accelerated charge-off standards. Residential real estate and auto loans are charged down to the net realizable value when the loan becomes 60 days past due, or sooner if the loan is determined to be collateral-dependent. Credit card loans are fully charged off within 60 days of receiving notification of the bankruptcy filing or other event. Education loans are generally charged off when the loan becomes 60 days past due after receiving notification of a bankruptcy.

- Auto loans are written down to net realizable value upon repossession of the collateral.

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A summary of changes in the ACL is presented below:

	Year Ended December 31, 2018		
(in millions)	Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	$685	$551	$1,236
Charge-offs	(52)	(442)	(494)
Recoveries	19	158	177
Net charge-offs	(33)	(284)	(317)
Provision charged to income	38	285	323
Allowance for loan and lease losses, end of period	690	552	1,242
Reserve for unfunded lending commitments, beginning of period	88	—	88
Provision for unfunded lending commitments	3	—	3
Reserve for unfunded lending commitments, end of period	91	—	91
Total allowance for credit losses, end of period	$781	$552	$1,333

	Year Ended December 31, 2017		
(in millions)	Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	$663	$573	$1,236
Charge-offs	(75)	(437)	(512)
Recoveries	40	167	207
Net charge-offs	(35)	(270)	(305)
Provision charged to income[1]	57	248	305
Allowance for loan and lease losses, end of period	685	551	1,236
Reserve for unfunded lending commitments, beginning of period	72	—	72
Provision for unfunded lending commitments	16	—	16
Reserve for unfunded lending commitments, end of period	88	—	88
Total allowance for credit losses, end of period	$773	$551	$1,324

[1] Includes an increase of approximately $50 million to commercial and corresponding decrease to retail for the impact of the enhancement to the assessment of qualitative risks, factors and events that may not be measured in the modeled results.

	Year Ended December 31, 2016		
(in millions)	Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	$596	$620	$1,216
Charge-offs	(79)	(457)	(536)
Recoveries	33	168	201
Net charge-offs	(46)	(289)	(335)
Provision charged to income	113	242	355
Allowance for loan and lease losses, end of period	663	573	1,236
Reserve for unfunded lending commitments, beginning of period	58	—	58
Provision for unfunded lending commitments	14	—	14
Reserve for unfunded lending commitments, end of period	72	—	72
Total allowance for credit losses, end of period	$735	$573	$1,308

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

	December 31, 2018			December 31, 2017		
(in millions)	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	$391	$723	$1,114	$370	$761	$1,131
Formula-based evaluation	56,392	59,154	115,546	51,661	57,825	109,486
Total loans and leases	$56,783	$59,877	$116,660	$52,031	$58,586	$110,617

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A summary of the ACL by evaluation method is presented below:

	December 31, 2018			December 31, 2017		
(in millions)	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	$38	$26	$64	$47	$34	$81
Formula-based evaluation	743	526	1,269	726	517	1,243
Allowance for credit losses	$781	$552	$1,333	$773	$551	$1,324

For commercial loans and leases, Citizens utilizes regulatory classification ratings to monitor credit quality. Loans with a "pass" rating are those that the Company believes will be fully repaid in accordance with the contractual loan terms. Commercial loans and leases that are "criticized" are those that have some weakness or potential weakness that indicate an increased probability of future loss. "Criticized" loans are grouped into three categories, "special mention," "substandard" and "doubtful." Special mention loans have potential weaknesses that, if left uncorrected, may result in deterioration of the Company's credit position at some future date. Substandard loans are inadequately protected loans; these loans have well-defined weaknesses that could hinder normal repayment or collection of the debt. Doubtful loans have the same weaknesses as substandard, with the added characteristics that the possibility of loss is high and collection of the full amount of the loan is improbable. For retail loans, the Company primarily uses the loan's payment and delinquency status to monitor credit quality. The further a loan is past due, the greater the likelihood of future credit loss. These credit quality indicators for both commercial and retail loans are continually updated and monitored. The recorded investment in commercial loans and leases based on regulatory classification ratings is presented below:

	December 31, 2018				
		Criticized			
(in millions)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$38,600	$1,231	$828	$198	$40,857
Commercial real estate	12,523	412	82	6	13,023
Leases	2,823	39	41	—	2,903
Total commercial loans and leases	$53,946	$1,682	$951	$204	$56,783

	December 31, 2017				
		Criticized			
(in millions)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$35,430	$1,143	$785	$204	$37,562
Commercial real estate	10,706	500	74	28	11,308
Leases	3,069	73	19	—	3,161
Total commercial loans and leases	$49,205	$1,716	$878	$232	$52,031

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The recorded investment in classes of retail loans, categorized by delinquency status is presented below:

	December 31, 2018					
		Days Past Due				
(in millions)	Current	1-29	30-59	60-89	90 or More	Total
Residential mortgages	$18,664	$131	$37	$13	$133	$18,978
Home equity loans	945	75	12	3	38	1,073
Home equity lines of credit	12,042	386	65	22	195	12,710
Home equity loans serviced by others	355	21	7	3	13	399
Home equity lines of credit serviced by others	79	15	2	1	7	104
Automobile	10,729	1,039	207	59	72	12,106
Education	8,694	159	23	13	11	8,900
Credit cards	1,894	53	14	10	20	1,991
Other retail	3,481	76	26	18	15	3,616
Total retail loans	$56,883	$1,955	$393	$142	$504	$59,877

	December 31, 2017					
		Days Past Due				
(in millions)	Current	1-29	30-59	60-89	90 or More	Total
Residential mortgages	$16,714	$147	$46	$18	$120	$17,045
Home equity loans	1,212	102	20	4	54	1,392
Home equity lines of credit	12,756	438	78	23	188	13,483
Home equity loans serviced by others	477	29	10	4	22	542
Home equity lines of credit serviced by others	116	21	4	1	7	149
Automobile	11,596	1,273	220	55	60	13,204
Education	7,898	160	23	12	41	8,134
Credit cards	1,747	63	12	9	17	1,848
Other retail	2,679	68	20	12	10	2,789
Total retail loans	$55,195	$2,301	$433	$138	$519	$58,586

Nonperforming Assets

Nonperforming loans and leases are those on which accrual of interest has been suspended. Loans (other than certain retail loans insured by U.S. government agencies) are placed on nonaccrual status and considered nonperforming when full payment of principal and interest is in doubt, unless the loan is both well secured and in the process of collection.

When the Company places a loan on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income and amortization of any net deferred fees is suspended. Interest collections on nonaccruing loans and leases for which the ultimate collectability of principal is uncertain are generally applied to first reduce the carrying value of the loan. Otherwise, interest income may be recognized to the extent of the cash received. A loan may be returned to accrual status if (i) principal and interest payments have been brought current, and the Company expects repayment of the remaining contractual principal and interest, (ii) the loan or lease has otherwise become well-secured and in the process of collection, or (iii) the borrower has been making regularly scheduled payments in full for the prior six months and the Company is reasonably assured that the loan or lease will be brought fully current within a reasonable period.

Commercial loans, commercial real estate loans, and leases are generally placed on nonaccrual status when contractually past due 90 days or more, or earlier if management believes that the probability of collection is insufficient to warrant further accrual. Some of these loans and leases may remain on accrual status when contractually past due 90 days or more if management considers the loan collectible.

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Residential mortgages are generally placed on nonaccrual status when past due 120 days, or sooner if determined to be collateral-dependent, unless repayment of the loan is guaranteed by the Federal Housing Administration. Credit card balances are placed on nonaccrual status when past due 90 days or more and are restored to accruing status if they subsequently become less than 90 days past due. All other retail loans are generally placed on nonaccrual status when past due 90 days or more, or earlier if management believes that the probability of collection is insufficient to warrant further accrual. Loans less than 90 days past due may be placed on nonaccrual status upon the death of the borrower, fraud or bankruptcy.

The following table presents nonperforming loans and leases and loans accruing and 90 days or more past due:

	Nonperforming [1]		Accruing and 90 days or more past due	
(in millions)	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Commercial	$194	$238	$1	$5
Commercial real estate	7	27	—	3
Leases	—	—	—	—
Total commercial loans and leases	201	265	1	8
Residential mortgages [1]	136	128	15	16
Home equity loans	50	72	—	—
Home equity lines of credit	231	233	—	—
Home equity loans serviced by others	17	25	—	—
Home equity lines of credit serviced by others	15	18	—	—
Automobile	81	70	—	—
Education	38	38	2	3
Credit card	20	17	—	—
Other retail	8	5	7	5
Total retail loans	596	606	24	24
Total	$797	$871	$25	$32

[1] Nonperforming balances exclude first lien residential mortgage loans that are 100% guaranteed by the Federal Housing Administration. These loans, which are accruing and 90 days or more past due, totaled $12 million and $15 million as of December 31, 2018 and 2017, respectively. Nonperforming balances also exclude guaranteed residential mortgage loans sold to GNMA for which the Company has the right, but not the obligation, to repurchase. These loans totaled $133 million and $30 million as of December 31, 2018 and 2017, respectively. These loans are included in the Company’s Consolidated Balance Sheets.

Other nonperforming assets consisted primarily of other real estate owned and was presented in other assets on the Consolidated Balance Sheets. Other real estate owned, net of valuation allowance, was $34 million and $36 million as of December 31, 2018 and 2017, respectively.

A summary of nonperforming loan and lease key performance indicators is presented below:

	December 31, 2018	December 31, 2017
Nonperforming commercial loans and leases as a percentage of total loans and leases	0.17 %	0.24 %
Nonperforming retail loans as a percentage of total loans and leases	0.51	0.55
Total nonperforming loans and leases as a percentage of total loans and leases	0.68 %	0.79 %
Nonperforming commercial assets as a percentage of total assets	0.13 %	0.17 %

Nonperforming retail assets as a percentage of total assets	0.39	0.43
Total nonperforming assets as a percentage of total assets	0.52 %	0.60 %

The recorded investment in mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings are in-process was $172 million and $181 million as of December 31, 2018 and 2017, respectively.

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An analysis of the age of both accruing and nonaccruing loan and lease past due amounts is presented below:

	December 31, 2018				December 31, 2017			
	Days Past Due				Days Past Due			
(in millions)	30-59	60-89	90 or More	Total	30-59	60-89	90 or More	Total
Commercial	$85	$3	$78	$166	$26	$4	$243	$273
Commercial real estate	8	32	5	45	38	20	30	88
Leases	7	—	—	7	4	1	—	5
Total commercial loans and leases	100	35	83	218	68	25	273	366
Residential mortgages	37	13	133	183	46	18	120	184
Home equity loans	12	3	38	53	20	4	54	78
Home equity lines of credit	65	22	195	282	78	23	188	289
Home equity loans serviced by others	7	3	13	23	10	4	22	36
Home equity lines of credit serviced by others	2	1	7	10	4	1	7	12
Automobile	207	59	72	338	220	55	60	335
Education	23	13	11	47	23	12	41	76
Credit cards	14	10	20	44	12	9	17	38
Other retail	26	18	15	59	20	12	10	42
Total retail loans	393	142	504	1,039	433	138	519	1,090
Total	$493	$177	$587	$1,257	$501	$163	$792	$1,456

Impaired Loans

A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all of the contractual interest and principal payments as scheduled in the loan agreement. This evaluation is generally based on delinquency information, an assessment of the borrower's financial condition and the adequacy of collateral, if any. Impaired loans include nonaccruing larger balance (greater than $3 million carrying value), non-homogeneous commercial and commercial real estate loans, and restructured loans that are deemed TDRs. When a loan is identified as impaired, the impairment is measured on an individual loan level as the difference between the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount) and the present value of expected future cash flows, discounted at the loan's effective interest rate. When collateral is the sole source of repayment for the impaired loan, rather than the borrower's income or other sources of repayment, the Company charges down the loan to its net realizable value.

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A summary of impaired loans by class is presented below:

	December 31, 2018				
(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	$186	$31	$167	$450	$353
Commercial real estate	32	7	6	38	38
Leases	—	—	—	—	—
Total commercial loans and leases	218	38	173	488	391
Residential mortgages	28	2	127	201	155
Home equity loans	34	3	76	148	110
Home equity lines of credit	21	1	181	244	202
Home equity loans serviced by others	22	1	19	54	41
Home equity lines of credit serviced by others	1	—	7	11	8
Automobile	1	—	22	31	23
Education	130	11	23	153	153
Credit cards	24	7	1	25	25
Other retail	4	1	2	8	6
Total retail loans	265	26	458	875	723
Total	$483	$64	$631	$1,363	$1,114

	December 31, 2017				
(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	$183	$42	$159	$403	$342
Commercial real estate	25	5	3	40	28
Leases	—	—	—	—	—
Total commercial loans and leases	208	47	162	443	370
Residential mortgages	25	2	126	197	151
Home equity loans	41	4	80	162	121
Home equity lines of credit	16	1	181	241	197
Home equity loans serviced by others	29	2	22	67	51
Home equity lines of credit serviced by others	2	—	7	14	9
Automobile	2	—	21	30	23
Education	154	17	21	175	175
Credit cards	24	7	1	25	25
Other retail	5	1	4	10	9
Total retail loans	298	34	463	921	761

Total	$506	$81	$625	$1,364	$1,131

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Additional information on impaired loans is presented below:

(in millions)	Year Ended December 31, 2018 Interest Income Recognized	2018 Average Recorded Investment	2017 Interest Income Recognized	2017 Average Recorded Investment	2016 Interest Income Recognized	2016 Average Recorded Investment
Commercial	$9	$312	$4	$380	$5	$295
Commercial real estate	1	32	—	37	—	53
Leases	—	—	—	—	—	3
Total commercial loans and leases	10	344	4	417	5	351
Residential mortgages	5	146	4	136	4	161
Home equity loans	6	107	6	121	7	144
Home equity lines of credit	7	181	6	176	6	178
Home equity loans serviced by others	3	42	3	49	3	60
Home equity lines of credit serviced by others	—	9	—	9	—	9
Automobile	1	20	1	18	—	14
Education	8	154	9	173	7	150
Credit cards	1	21	2	22	2	23
Other retail	—	7	—	9	1	12
Total retail loans	31	687	31	713	30	751
Total	$41	$1,031	$35	$1,130	$35	$1,102

Troubled Debt Restructurings

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

Retail and commercial loans whose contractual terms have been modified in a TDR and are current at the time of restructuring may remain on accrual status if there is demonstrated performance prior to the restructuring and payment in full under the restructured terms is expected. Retail loans that were discharged in bankruptcy and not reaffirmed by the borrower are deemed to be collateral-dependent TDRs and are generally charged off to the fair value of the collateral, less cost to sell, and less amounts recoverable under a government guarantee (if any). Cash receipts on nonaccruing impaired loans, including nonaccruing loans involved in TDRs, are generally applied to reduce the unpaid principal balance. Certain TDRs that are current in payment status are classified as nonaccrual in accordance with regulatory guidance. Income on these loans is generally recognized on a cash basis if management believes that the remaining book value of the loan is realizable. Nonaccruing TDRs that meet the guidelines above for accrual status can be returned to accruing if supported by a well-documented evaluation of the borrowers' financial condition, and if they have been current for at least six months.

Because TDRs are impaired loans, Citizens measures impairment by comparing the present value of expected future cash flows, or when appropriate, the fair value of collateral less costs to sell, to the loan's recorded investment. Any excess of recorded investment over the present value of expected future cash flows or collateral value is included in the ALLL. Any portion of the loan's recorded investment the Company does not expect to collect as a result of the modification is charged off at the time of modification. For retail TDR accounts where the expected value of cash flows is utilized, any recorded investment in excess of the present value of expected cash flows is recognized by increasing the ALLL. For retail TDR accounts assessed based on the fair value of collateral, any portion of the loan's recorded investment in excess of the collateral value less costs to sell is charged off at the time of modification or at the time of subsequent and regularly recurring valuations.

The table below summarizes TDRs by class and total unfunded commitments:

	December 31,	
(in millions)	2018	2017
Commercial	$304	$129
Retail	723	761
Unfunded commitments related to TDRs	30	39

The table below summarizes how loans were modified during the year ended December 31, 2018, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during 2018 and were paid off in full, charged off, or sold prior to December 31, 2018.

	Primary Modification Types					
	Interest Rate Reduction (1)			Maturity Extension (2)		
(dollars in millions)	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	49	$23	$22
Commercial real estate	—	—	—	3	31	31
Total commercial loans	7	1	1	52	54	53
Residential mortgages	35	4	4	61	8	8
Home equity loans	43	3	4	1	—	—
Home equity lines of credit	76	6	7	178	25	26
Home equity loans serviced by others	4	—	—	—	—	—
Home equity lines of credit serviced by others	5	—	—	1	—	—
Automobile	158	4	3	46	1	1
Education	—	—	—	—	—	—
Credit cards	2,312	13	13	—	—	—
Other retail	1	—	—	—	—	—
Total retail loans	2,634	30	31	287	34	35
Total	2,641	$31	$32	339	$88	$88

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(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	53	$202	$200	$—	$—
Commercial real estate	2	31	31	—	—
Total commercial loans	55	233	231	—	—
Residential mortgages	142	17	17	(1)	—
Home equity loans	134	5	5	—	—
Home equity lines of credit	413	29	29	—	1
Home equity loans serviced by others	23	1	1	—	—
Home equity lines of credit serviced by others	14	1	1	—	—
Automobile	1,189	21	17	—	4
Education	355	7	7	1	—
Credit cards	—	—	—	4	—
Other retail	9	—	—	(1)	—
Total retail loans	2,279	81	77	3	5
Total	2,334	$314	$308	$3	$5

[1] Includes modifications that consist of multiple concessions, one of which is an interest rate reduction.
[2] Includes modifications that consist of multiple concessions, one of which is a maturity extension (unless one of the other concessions was an interest rate reduction).
[3] Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forgiveness, and capitalizing arrearages. Also included are the following: deferrals, trial modifications, certain bankruptcies, loans in forbearance and prepayment plans. Modifications can include the deferral of accrued interest resulting in post modification balances being higher than pre-modification.

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The table below summarizes how loans were modified during the year ended December 31, 2017, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during 2017 and were paid off in full, charged off, or sold prior to December 31, 2017.

	Primary Modification Types					
	Interest Rate Reduction (1)			Maturity Extension (2)		
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	7	$1	$1	45	$22	$22
Commercial real estate	—	—	—	1	—	—
Total commercial loans	7	1	1	46	22	22
Residential mortgages	71	9	10	73	12	13
Home equity loans	82	5	6	1	—	—
Home equity lines of credit	50	3	3	235	30	30
Home equity loans serviced by others	15	1	1	—	—	—
Home equity lines of credit serviced by others	5	—	—	2	—	—
Automobile	130	2	2	29	1	1
Education	—	—	—	—	—	—
Credit cards	2,363	13	13	—	—	—
Other retail	1	—	—	—	—	—
Total retail loans	2,717	33	35	340	43	44
Total	2,724	$34	$36	386	$65	$66

	Primary Modification Types				
	Other (3)				
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification
Commercial	15	$70	$71	($1)	$—
Commercial real estate	1	—	—	—	—
Total commercial loans	16	70	71	(1)	—
Residential mortgages	171	19	19	(1)	—
Home equity loans	232	13	13	—	—
Home equity lines of credit	395	27	27	—	1
Home equity loans serviced by others	52	2	2	—	—
Home equity lines of credit serviced by others	26	2	2	—	—
Automobile	1,336	24	20	—	4
Education	329	7	7	2	—
Credit cards	—	—	—	3	—
Other retail	5	—	—	(2)	—
Total retail loans	2,546	94	90	2	5
Total	2,562	$164	$161	$1	$5

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

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

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The table below summarizes how loans were modified during the year ended December 31, 2016, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during 2016 and were paid off in full, charged off, or sold prior to December 31, 2016.

	Primary Modification Types					
	Interest Rate Reduction [1]			Maturity Extension [2]		
(dollars in millions)	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	12	$1	$1	81	$20	$21
Commercial real estate	1	—	—	1	5	5
Total commercial loans	13	1	1	82	25	26
Residential mortgages	71	10	10	60	10	10
Home equity loans	97	6	6	39	4	5
Home equity lines of credit	49	4	4	121	13	12
Home equity loans serviced by others	18	1	1	—	—	—
Home equity lines of credit serviced by others	8	—	—	5	1	1
Automobile	138	3	3	41	1	1
Education	—	—	—	—	—	—
Credit cards	2,187	12	12	—	—	—
Other retail	4	—	—	—	—	—
Total retail loans	2,572	36	36	266	29	29
Total	2,585	$37	$37	348	$54	$55

	Primary Modification Types				
	Other [3]				
(dollars in millions)	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	14	$48	$48	$3	$—
Commercial real estate	—	—	—	—	—
Total commercial loans	14	48	48	3	—
Residential mortgages	247	26	26	(1)	—
Home equity loans	279	18	17	(1)	—
Home equity lines of credit	304	23	22	—	1
Home equity loans serviced by others	60	2	2	—	—
Home equity lines of credit serviced by others	24	1	1	—	—
Automobile	1,081	20	18	—	3
Education	479	12	12	4	—
Credit cards	—	—	—	3	—
Other retail	13	—	—	—	—
Total retail loans	2,487	102	98	5	4
Total	2,501	$150	$146	$8	$4

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

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

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The table below summarizes TDRs that defaulted within 12 months of their modification date during 2018, 2017 and 2016. For purposes of this table, a payment default refers to a loan that becomes 90 days or more past due under the modified terms. Amounts represent the loan's recorded investment at the time of payment default. Loan data includes loans meeting the criteria that were paid off in full, charged off, or sold prior to December 31, 2018 and 2017. 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.

	Year Ended December 31,					
	2018		2017		2016	
(dollars in millions)	Number of Contracts	Balance Defaulted	Number of Contracts	Balance Defaulted	Number of Contracts	Balance Defaulted
Commercial	28	$63	8	$5	22	$13
Commercial real estate	1	—	1	4	1	—
Total commercial loans	29	63	9	9	23	13
Residential mortgages	128	15	152	19	187	24
Home equity loans	31	2	43	2	50	3
Home equity lines of credit	238	18	200	14	155	13
Home equity loans serviced by others	15	—	23	—	37	1
Home equity lines of credit serviced by others	6	—	10	1	17	—
Automobile	167	2	140	1	110	2
Education	23	1	44	1	59	1
Credit cards	465	2	491	3	433	3
Other retail	1	—	4	—	3	—
Total retail loans	1,074	40	1,107	41	1,051	47
Total	1,103	$103	1,116	$50	1,074	$60

Concentrations of Credit Risk

Most of the Company's lending activity is with customers located in the New England, Mid-Atlantic and Midwest regions. Generally, loans are collateralized by assets including real estate, inventory, accounts receivable, other personal property and investment securities. As of December 31, 2018 and 2017, Citizens had a significant amount of loans collateralized by residential and commercial real estate. There were no significant concentration risks within the commercial loan or retail loan portfolios. Exposure to credit losses arising from lending transactions may fluctuate with fair values of collateral supporting loans, which may not perform according to contractual agreements. The Company's policy is to collateralize loans to the extent necessary; however, unsecured loans are also granted on the basis of the financial strength of the applicant and the facts surrounding the transaction.

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

	December 31, 2018					
(in millions)	Residential Mortgages	Home Equity Loans and Lines of	Home Equity Products Serviced by Others	Credit Cards	Education	Total

		Credit				
High loan-to-value	$318	$87	$148	$—	$—	$553
Interest only/negative amortization	1,794	—	—	—	1	1,795
Low introductory rate	—	—	—	217	—	217
Multiple characteristics and other	1	—	—	—	—	1
Total	$2,113	$87	$148	$217	$1	$2,566

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	December 31, 2017					
(in millions)	Residential Mortgages	Home Equity Loans and Lines of Credit	Home Equity Products Serviced by Others	Credit Cards	Education	Total
High loan-to-value	$366	$166	$264	$—	$—	$796
Interest only/negative amortization	1,763	—	—	—	1	1,764
Low introductory rate	—	—	—	197	—	197
Multiple characteristics and other	1	—	—	—	—	1
Total	$2,130	$166	$264	$197	$1	$2,758

NOTE 6 - PREMISES, EQUIPMENT AND SOFTWARE

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization have been computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the life of the lease (including renewal options if exercise of those options is reasonably assured) or their estimated useful life, whichever is shorter.

Additions to premises and equipment are recorded at cost. The cost of major additions, improvements and betterments is capitalized. Normal repairs and maintenance and other costs that do not improve the property, extend the useful life or otherwise do not meet capitalization criteria are charged to expense as incurred. Citizens evaluates premises and equipment for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable.

A summary of the carrying value of premises and equipment is presented below:

		December 31,	
(dollars in millions)	Useful Lives (years)	2018	2017
Land and land improvements	10 - 75	$112	$47
Buildings and leasehold improvements	5 - 60	852	719
Furniture, fixtures and equipment	5 - 20	1,019	1,465
Construction in progress		292	359
Total premises and equipment, gross		2,275	2,590
Accumulated depreciation		(1,484)	(1,905)
Total premises and equipment, net		$791	$685

Depreciation charged to noninterest expense totaled $117 million, $124 million, and $130 million for the years ended December 31, 2018, 2017, and 2016, respectively, and is presented in the Consolidated Statements of Operations in both occupancy and equipment expense.

Software

Costs related to computer software developed or obtained for internal use are capitalized if the projects improve functionality and provide long-term future operational benefits. Capitalized costs are amortized using the straight-line method over the asset's expected useful life, based upon the basic pattern of consumption and economic benefits provided by the asset. Citizens begins to amortize the software when the asset (or identifiable component of the asset) is substantially complete and ready for its intended use. All other costs incurred in connection with an internal-use software project are expensed as incurred. Capitalized software is included in other assets on the Consolidated Balance Sheets.

Citizens had capitalized software assets of $1.8 billion and $1.7 billion and related accumulated amortization of $948 million and $869 million as of December 31, 2018 and 2017, respectively. Amortization expense was $189 million, $180 million, and $170 million for the years ended December 31, 2018, 2017, and 2016, respectively.

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The estimated future amortization expense for capitalized software assets is presented below:

Year	(in millions)
2019	$186
2020	155
2021	116
2022	80
2023	48
Thereafter	72
Total [1]	$657

[1] Excluded from this balance is $188 million of in-process software at December 31, 2018.

Operating Lease Assets

Other assets on the Consolidated Balance Sheets included assets subject to operating leases, where Citizens was the lessor, of $92 million and $112 million as of December 31, 2018 and 2017, respectively. Operating lease rental income for leased assets is recognized in other income on a straight-line basis over the lease term. Related depreciation expense is recorded on a straight-line basis over the estimated useful life, considering the estimated residual value of the leased asset and is included in other operating expense in the Consolidated Statements of Operations. On a periodic basis, leased assets are reviewed for impairment. Impairment loss is recognized in other operating expense if the carrying amount of the leased assets exceeds fair value and is not recoverable. The carrying amount of leased assets is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the lease payments and the estimated residual value upon the eventual disposition of the asset.

NOTE 7 - LEASE COMMITMENTS

Citizens is committed under long-term leases for the rental of premises and equipment. These leases have varying renewal options and in certain instances, require the payment of insurance, real estate taxes and other operating expenses.

At December 31, 2018, the aggregate minimum rental commitments under these non-cancelable operating leases and capital leases, exclusive of renewals, are presented below for the years ended December 31:

(in millions)	Operating Leases	Capital Leases
2019	$165	$3
2020	153	2
2021	136	2
2022	109	1
2023	85	—
Thereafter	247	8
Total minimum lease payments	$895	$16
Amounts representing interest	—	(8)
Present value of net minimum lease	$895	$8

Occupancy and equipment expense including rental expense for non-cancelable operating leases and capital leases totaled $212 million, $211 million, and $208 million for the years ended December 31, 2018, 2017, and 2016, respectively.

NOTE 8 - MORTGAGE BANKING

In its mortgage banking business, Citizens sells residential mortgages to government-sponsored entities and other parties, who may issue securities backed by pools of such loans. Citizens retains no beneficial interests in these sales, but may retain the servicing rights for the loans sold. Citizens is obligated to subsequently repurchase a loan if the purchaser discovers a representation or warranty violation such as noncompliance with eligibility or servicing requirements, or customer fraud, that should have been identified in a loan file review.

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Mortgage loans held for sale are accounted for at fair value on an individual loan basis. Changes in the fair value, and realized gains and losses on the sales of mortgage loans, are reported in mortgage banking fees.

The following table summarizes activity related to the Company’s residential mortgage loan sales and the Company's mortgage banking activity:

	Year Ended December 31,		
(in millions)	2018	2017	2016
Residential mortgage loan sold with servicing retained	$8,149	$3,161	$2,652
Gain on sales [(1)]	89	35	69
Contractually specified servicing, late and other ancillary fees [(1)]	118	53	51

[(1)] Reported in mortgage banking fees in the Consolidated Statements of Operations.

The Company recognizes the right to service residential mortgage loans for others, or MSRs, as separate assets, which are presented in other assets on the Consolidated Balance Sheets, when purchased, or when servicing is contractually separated from the underlying mortgage loans by sale with servicing rights retained. MSRs are initially recorded at fair value. Subsequent to the initial recognition, MSRs are measured using either the fair value method or the amortization method. MSRs accounted for under the amortization method are subsequently accounted for at lower of cost or fair value, net of accumulated amortization, which is recorded in proportion to, and over the period of, net servicing income.

Citizens maintains two separate classes of MSRs which at the time of initial capitalization, are differentiated by how the risk associated with valuation changes of the MSRs is managed. The FAMC portfolio, acquired on August 1, 2018, is accounted for under the fair value method while the Company’s MSR portfolio held before the FAMC acquisition is accounted for under the amortization method. Citizens implemented an active hedging strategy to manage the risk associated with changes in the value of the MSR portfolio accounted for under the fair value method, which includes the purchase of freestanding derivatives. Any change in fair value during the period for MSRs carried under the fair value method, as well as amortization and impairment of MSRs under the amortization method, is recorded in mortgage banking fees in the Consolidated Statements of Operations.

The following tables summarize changes in MSRs recorded using the amortization method and the fair value method:

Amortization Method

	As of and for the Year Ended December 31,	
(in millions)	2018	2017
MSRs:		
Balance as of beginning of period	$201	$167
Amount capitalized	36	37
Purchases	16	28
Amortization	(32)	(31)
Carrying amount before valuation allowance	221	201
Valuation allowance for servicing assets:		
Balance as of beginning of period	3	5
Valuation recoveries	(3)	(2)
Balance at end of period	—	3
Net carrying value of MSRs	$221	$198

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Fair Value Method

(in millions)	As of and for the Year Ended December 31, 2018
MSRs:	
Fair value as of beginning of the period	$—
Acquired MSRs	590
Amounts capitalized	73
Changes in unpaid principal balance during the period [1]	(32)
Changes in fair value during the period [2]	(31)
Fair value at end of the period	$600

[1] Represents changes in value due to i) passage of time including the impact from both regularly scheduled loan principal payments and partial paydowns, and ii) loans that paid off during the period.
[2] Represents changes in value primarily due to market driven changes in interest rates and prepayment speeds.

The fair value of MSRs is estimated by using the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, contractual servicing fee income, servicing costs, default rates, ancillary income, and other economic factors, which are determined based on current market interest rates. The valuation does not attempt to forecast or predict the future direction of interest rates.

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

For MSRs under the amortization method, the key economic assumptions used to estimate the fair value are presented below:

	December 31, 2018			December 31, 2017		
(dollars in millions)	Actual	Decline in fair value due to		Actual	Decline in fair value due to	
		50 bps adverse change	100 bps adverse change		50 bps adverse change	100 bps adverse change
Fair value	$243			$218		
Weighted average life (in years)	6.5			5.9		
Weighted average constant prepayment rate	8.5%	$24	$56	10.0%	$22	$46
Weighted average discount rate	9.3%	5	9	9.9%	4	8

For MSRs under the fair value method, the key economic assumptions used to estimate the fair value are presented below:

	December 31, 2018		
(dollars in millions)	Actual	Decline in fair value due to	
		50 bps adverse change	100 bps adverse change
Fair value	$600		

Weighted average life (in years)	8.0		
Weighted average constant prepayment rate	8.2%	$68	$148
Weighted average option adjusted spread	609 bps	13	26

Citizens accounts for derivatives in its mortgage banking operations at fair value on the balance sheet as derivative assets or derivative liabilities, depending on whether the derivative had a positive (asset) or negative (liability) fair value as of the balance sheet date. The Company’s mortgage banking derivatives include commitments to originate mortgages held for sale, certain loan sale agreements, and other financial instruments that meet the definition of a derivative. Refer to Note 13 “Derivatives” for additional information.

NOTE 9 - GOODWILL AND INTANGIBLE ASSETS

Goodwill is the purchase premium associated with the acquisition of a business and is assigned to reporting units at the acquisition date. A reporting unit is a business operating segment or a component of a business operating segment. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill. Citizens has identified and allocated goodwill to two reporting units - Consumer Banking and Commercial Banking - based upon reviews of the structure of the Company's executive team and supporting functions, resource allocations and financial reporting processes.

Goodwill is not amortized, but is subject to annual impairment tests. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is deemed to be not impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment.

The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangible. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss that is recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

Citizens reviews goodwill for impairment annually as of October 31st or more often if events or circumstances indicate that it is more likely than not that the fair value of one or more reporting units is below its carrying value. The fair values of the Company's reporting units are determined using a combination of income and market-based approaches. Citizens relies on the income approach (discounted cash flow method) for determining fair value. Market and transaction approaches are used as benchmarks only to corroborate the value determined by the discounted cash flow method. Citizens relies on several assumptions when estimating the fair value of its reporting units using the discounted cash flow method. These assumptions include the discount rate, as well as projected loan loss, income tax and capital retention rates.

Discount rates are estimated based on the Capital Asset Pricing Model, which considers the risk-free interest rate, market risk premium, beta, and size premium adjustments specific to a particular reporting unit. The discount rates are also calibrated on the assessment of the risks related to the projected cash flows of each reporting unit. Cash flow projections include estimates for projected loan loss, income tax and capital retention rates. Multi-year financial forecasts are developed for each reporting unit by considering several key business drivers such as new business initiatives, customer retention standards, market share changes, anticipated loan and deposit growth, forward interest rates, historical performance, and industry and economic trends, among other considerations. The long-term growth rate used in determining the terminal value of each reporting unit is estimated based on management's assessment of the minimum expected terminal growth rate of each reporting unit, as well as broader economic considerations such as GDP and inflation.

Citizens bases its fair value estimates on assumptions it believes to be representative of assumptions that a market participant would use in valuing the reporting unit but that are unpredictable and inherently uncertain, including estimates of future growth rates and operating margins and assumptions about the overall economic climate and the competitive environment for its reporting units. There can be no assurances that future estimates and assumptions made for purposes of goodwill testing will prove accurate predictions of the future. If the assumptions regarding business plans, competitive environments or anticipated growth rates are not achieved, Citizens may be required to record goodwill impairment charges in future periods.

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Since 1988, Citizens has completed more than 25 acquisitions of banks or assets of banks. In August 2018, Citizens acquired certain assets and assumed certain liabilities of FAMC, which resulted in an increase to goodwill of $36 million as of December 31, 2018. Changes in the carrying value of goodwill for the years ended December 31, 2018 and 2017 are presented below:

(in millions)	Consumer Banking	Commercial Banking	Total
Balance at December 31, 2016	$2,136	$4,740	$6,876
Business acquisition	—	11	11
Balance at December 31, 2017	$2,136	$4,751	$6,887
Business acquisition	59	—	59
Adjustments [1]	(23)	—	(23)
Balance at December 31, 2018	$2,172	$4,751	$6,923

[1] Adjustments to goodwill are the result of an update to the purchase price allocation for the FAMC acquisition, given higher value attributed to purchased net assets.

Accumulated impairment losses related to the Consumer Banking reporting unit totaled $5.9 billion at December 31, 2018 and 2017. The accumulated impairment losses related to the Commercial Banking reporting unit totaled $50 million at December 31, 2018 and 2017. No impairment was recorded for the years ended December 31, 2018, 2017 and 2016.

Other Intangibles

Other intangible assets are recognized separately from goodwill if the asset arises as a result of contractual rights or if the asset is capable of being separated and sold, transferred or exchanged. Intangible assets are recorded in other assets on the Consolidated Balance Sheets and are amortized on a straight-line basis. Intangible assets are subject to an annual impairment evaluation. Amortization expense is recorded in other expenses in our Consolidated Statements of Operations.

A summary of the carrying value of intangible assets is presented below. Included in the carrying value at December 31, 2018 are $30 million in other intangibles, net of $2 million of amortization expense, related to the FAMC acquisition.

		December 31, 2018			December 31, 2017		
(in millions)	Amortizable Lives (years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Acquired technology	7	$20	$1	$19	$—	$—	$—
Acquired relationships	5 - 15	11	1	10	2	—	2
Other	2 - 3	3	1	2	—	—	—
Total		$34	$3	$31	$2	$—	$2

As of December 31, 2018, all of the Company’s intangible assets were being amortized. Amortization expense recognized on intangible assets was $3 million for the year ended December 31, 2018. There was no amortization expense recognized on intangible assets for the years ended December 31, 2017 and 2016. The Company’s projection of amortization expense is based on balances as of December 31, 2018, and future amortization expense may vary from these projections.

Estimated intangible asset amortization expense for the next five years is as follows:

(in millions)	Total
2019	$5
2020	5
2021	4
2022	3
2023	3

NOTE 10 - VARIABLE INTEREST ENTITIES

Citizens makes equity investments in various entities that are considered VIEs, as defined by GAAP. A VIE typically does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. The Company’s variable interest arises from contractual, ownership or other monetary interests in the entity, which change with fluctuations in the fair value of the entity's net assets. Citizens consolidates a VIE if it is the primary beneficiary of the entity. Citizens is the primary beneficiary of a VIE if its variable interest provides it with the power to direct the activities that most significantly impact the VIE and the right to receive benefits (or the obligation to absorb losses) that could potentially be significant to the VIE. To determine whether or not a variable interest held could potentially be significant to the VIE, the company considers both qualitative and quantitative factors regarding the nature, size and form of its involvement with the VIE. Citizens assesses whether or not it is the primary beneficiary of a VIE on an ongoing basis.

The Company’s is involved in various entities that are considered VIEs, including investments in limited partnerships that sponsor affordable housing projects, limited liability companies that sponsor renewable energy projects and lending to special purpose entities. The Company’s maximum exposure to loss as a result of its involvement with these entities is limited to the balance sheet carrying amount of its equity investment and outstanding loans to special purpose entities. A summary of these investments is presented below:

	December 31,	
(in millions)	2018	2017
LIHTC investment included in other assets	$1,236	$951
LIHTC unfunded commitments included in other liabilities	673	491
Renewable energy investments included in other assets	319	335
Lending to special purpose entities included in loans and leases	613	—

Low Income Housing Tax Credit Partnerships

The purpose of the Company’s equity investments is to assist in achieving the goals of the Community Reinvestment Act and to earn an adequate return of capital. LIHTC partnerships are managed by unrelated general partners that have the power to direct the activities which most significantly affect the performance of the partnerships. Citizens is therefore not the primary beneficiary of any LIHTC partnerships. Accordingly, the Company does not consolidate these VIEs and accounts for these investments in other assets on the Consolidated Balance Sheets.

Citizens applies the proportional amortization method to account for its LIHTC investments. Under the proportional amortization method, the Company applies a practical expedient and amortizes the initial cost of the investment in proportion to the tax credits received in the current period as compared to the total tax credits expected to be received over the life of the investment. The amortization and tax benefits are included as a component of income tax expense. The tax credits received are reported as a reduction of income tax expense (or an increase to income tax benefit) related to these transactions.

The following table presents other information related to the Company’s affordable housing tax credit investments:

	Year Ended December 31,		
(in millions)	2018	2017	2016
Tax credits included in income tax expense	$101	$83	$59
Amortization expense included in income tax expense	110	94	59
Other tax benefits included in income tax expense	25	31	21

No LIHTC investment impairment losses were recognized during the years ended December 31, 2018 and 2017.

Renewable Energy Entities

The Company’s investments in renewable energy entities provide benefits from a return generated by government incentives plus other tax attributes that are associated with tax ownership (e.g., tax depreciation). As a tax equity investor, Citizens does not have the power to direct the activities which most significantly affect the performance of these entities and therefore is not the primary beneficiary of any renewable energy entities. Accordingly, Citizens does not consolidate these VIEs and accounts for these investments in other assets on the Consolidated Balance Sheets.

Lending to Special Purpose Entities

Citizens provides lending facilities to third-party sponsored special purpose entities. Because the sponsor for each respective entity has the power to direct how proceeds from the Company are utilized, as well as maintains responsibility for any associated servicing commitments, Citizens is not the primary beneficiary of these entities. Accordingly, Citizens does not consolidate these VIEs on the Consolidated Balance Sheets. As of December 31, 2018, the lending facilities had aggregate unpaid principal balances of $613 million and undrawn commitments to extend credit of $584 million. Citizens did not provide these lending facilities as of December 31, 2017.

NOTE 11 - DEPOSITS

Interest-bearing deposits in banks are carried at cost and include deposits that mature within one year.

The major components of deposits are presented below:

	December 31,	
(in millions)	2018	2017
Demand	$29,458	$29,279
Checking with interest	23,067	22,229
Regular savings	12,007	9,518
Money market accounts	35,701	37,454
Term deposits	19,342	16,609
Total deposits	$119,575	$115,089

The maturity distribution of term deposits as of December 31, 2018 is presented below:

Year	(in millions)
2019	$15,889
2020	2,519
2021	649
2022	174
2023	106
2024 and thereafter	5
Total	$19,342

Of these deposits, the amount of term deposits with a denomination of $100,000 or more was $13.8 billion at December 31, 2018. The remaining maturities of these deposits are presented below:

(in millions)	
Three months or less	$5,388
After three months through six months	2,676
After six months through twelve months	3,844
After twelve months	1,936
Total term deposits	$13,844

NOTE 12 - BORROWED FUNDS

A summary of the Company’s short-term borrowed funds is presented below:

	December 31,	
(in millions)	2018	2017
Federal funds purchased	$820	$460
Securities sold under agreements to repurchase	336	355
Other short-term borrowed funds (1)	1,653	1,856
Total short-term borrowed funds	$2,809	$2,671

(1) December 31, 2018 includes $1.5 billion of debt issued under CBNA’s Global Bank Note Program maturing within one year, with unamortized deferred issuance costs and/or discounts of ($1) million and other basis adjustments of

($8) million. December 31, 2017 includes $750 million of debt issued under CBNA's Global Bank Note Program maturing within one year, with unamortized deferred issuance costs and/or discounts of ($1) million and other basis adjustments of ($4) million.

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

	As of and for the Year Ended December 31,		
(dollars in millions, except ratio data)	2018	2017	2016
Weighted-average interest rate at year-end: [1]			
Federal funds purchased and securities sold under agreements to repurchase	1.72 %	0.74 %	0.26 %
Other short-term borrowed funds	2.50	1.72	0.94
Maximum amount outstanding at any month-end during the year:			
Federal funds purchased and securities sold under agreements to repurchase [2]	$1,282	$1,174	$1,522
Other short-term borrowed funds	2,509	3,508	5,461
Average amount outstanding during the year:			
Federal funds purchased and securities sold under agreements to repurchase [2]	$654	$776	$947
Other short-term borrowed funds	1,808	2,321	3,207
Weighted-average interest rate during the year: [1]			
Federal funds purchased and securities sold under agreements to repurchase	0.92 %	0.36 %	0.09 %
Other short-term borrowed funds	2.42	1.32	0.64

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

A summary of the Company's long-term borrowed funds is presented below:

	December 31,	
(in millions)	2018	2017
Parent Company:		
2.375% fixed-rate senior unsecured debt, due 2021	$349	$349
4.150% fixed-rate subordinated debt, due 2022	348	348
5.158% fixed-to-floating rate callable subordinated debt, due 2023 [1]	—	333
3.750% fixed-rate subordinated debt, due 2024	250	250
4.023% fixed-rate subordinated debt, due 2024	42	42
4.350% fixed-rate subordinated debt, due 2025	249	249
4.300% fixed-rate subordinated debt, due 2025	749	749
Banking Subsidiaries:		
2.450% senior unsecured notes, due 2019 [2] [3]	—	743
2.500% senior unsecured notes, due 2019 [2] [3]	—	741
2.250% senior unsecured notes, due 2020 [2]	691	692
3.278% floating-rate senior unsecured notes, due 2020 [2] [4]	300	299
3.247% floating-rate senior unsecured notes, due 2020 [2] [4]	250	249
2.200% senior unsecured notes, due 2020 [2]	499	498
2.250% senior unsecured notes, due 2020 [2]	738	742
2.550% senior unsecured notes, due 2021[2]	964	964
3.487% floating-rate senior unsecured notes, due 2022 [2] [4]	249	249
2.650% senior unsecured notes, due 2022 [2]	487	491
3.700% senior unsecured notes, due 2023 [2]	502	—
3.753% floating-rate senior unsecured notes, due 2023 [2] [4]	249	—
Federal Home Loan Bank advances, 2.725% weighted average rate, due through 2038	7,508	3,761
Other	9	16
Total long-term borrowed funds	$14,433	$11,765

(1) Redeemed on June 29, 2018.
(2) Issued under CBNA’s Global Bank Note Program.
(3) Reclassified to short-term borrowed funds.
(4) Rate disclosed reflects the floating rate as of December 31, 2018.

The Parent Company’s long-term borrowed funds as of December 31, 2018 and 2017 included principal balances of $2.0 billion and $2.3 billion, respectively, and unamortized deferred issuance costs and/or discounts of ($5) million for each period. The banking subsidiaries’ long-term borrowed funds as of December 31, 2018 and 2017 include principal balances of $12.5 billion and $9.5 billion, respectively, with unamortized deferred issuance costs and/or discounts of ($14) million and ($19) million, respectively, and hedging basis adjustments of ($58) million and ($63) million, respectively. See Note 13 “Derivatives” for further information about the Company’s hedging of certain long-term borrowed funds.

Advances, lines of credit, and letters of credit from the FHLB are collateralized by pledged mortgages and pledged securities at least sufficient to satisfy the collateral maintenance level established by the FHLB. The utilized borrowing capacity for FHLB advances and letters of credit was $13.0 billion and $9.4 billion at December 31, 2018 and 2017, respectively. The Company’s available FHLB borrowing capacity was $4.8 billion and $8.0 billion at December 31, 2018 and 2017, respectively. Citizens can also borrow from the FRB discount window to meet short-term liquidity requirements. Collateral, including certain loans, is pledged to support this borrowing capacity. At December 31, 2018, the Company’s unused secured borrowing capacity was approximately $36.2 billion, which includes unencumbered securities, FHLB borrowing capacity, and FRB discount window capacity.

A summary of maturities for the Company’s long-term borrowed funds at December 31, 2018 is presented below:

(in millions)	Parent Company	Banking Subsidiaries	Consolidated
Year			
2019	$—	$—	$—
2020	—	9,982	9,982
2021	349	967	1,316
2022	348	739	1,087
2023	—	751	751
2024 and thereafter	1,290	7	1,297
Total	$1,987	$12,446	$14,433

NOTE 13 - DERIVATIVES

In the normal course of business, Citizens enters into a variety of derivative transactions in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates and foreign currency exchange rates. These transactions include interest rate swap contracts, interest rate options, foreign exchange contracts, residential loan commitment rate locks, interest rate future contracts, swaptions, forward commitments to sell to-be-announced mortgage securities (“TBAs”), forward sale contracts and purchase options. The Company monitors the results of each transaction to ensure that management’s intent is satisfied. The Company does not use derivatives for speculative purposes.

The Company’s derivative instruments are recognized on the Consolidated Balance Sheets at fair value. Information regarding the valuation methodology and inputs used to estimate the fair value of the Company’s derivative instruments is described in Note 19 “Fair Value Measurements.”

Derivative assets and derivative liabilities are netted by counterparty on the balance sheet if a “right of setoff” has been established in a master netting agreement between the Company and the counterparty. This netted derivative asset or liability position is also netted against the fair value of any cash collateral that has been pledged or received in accordance with a Credit Support Annex.

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

(in millions)	December 31, 2018 Notional Amount [1]	December 31, 2018 Derivative Assets	December 31, 2018 Derivative Liabilities	December 31, 2017 Notional Amount [1]	December 31, 2017 Derivative Assets	December 31, 2017 Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate contracts	$12,050	$5	$—	$13,300	$—	$—
Derivatives not designated as hedging instruments:						
Interest rate contracts	117,076	301	277	80,180	538	379
Foreign exchange contracts	9,866	129	113	9,882	148	149
Other contracts	3,555	14	25	1,039	7	5
Total derivatives not designated as hedging instruments		444	415		693	533
Gross derivative fair values		449	415		693	533
Less: Gross amounts offset in the Consolidated Balance Sheets [2]		(87)	(87)		(72)	(72)
Less: Cash collateral applied [2]		(45)	(36)		(4)	(151)
Total net derivative fair values presented in the Consolidated Balance Sheets		$317	$292		$617	$310

[1] The notional or contractual amount of interest rate derivatives and foreign exchange contracts is the amount upon which interest and other payments under the contract are based. For interest rate contracts, the notional amount is typically not exchanged. Therefore, notional amounts should not be taken as the measure of credit or market risk, as they do not measure the true economic risk of these contracts.
[2] Amounts represent the impact of enforceable master netting agreements that allow the Company to net settle positive and negative positions as well as collateral paid and received.

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

Institutional derivatives

The institutional derivatives portfolio primarily consists of interest rate swap agreements that are used to hedge the interest rate risk associated with the Company's loans and financing liabilities (i.e., borrowed funds, deposits, etc.). Citizens enters into certain interest rate swap agreements to hedge the risk associated with floating rate loans. By entering into receive-fixed/pay-floating interest rate swaps, the Company is able to minimize the variability in the cash flows of these assets due to changes in interest rates. Citizens also uses receive-fixed/pay-floating interest rate swaps to manage the interest rate exposure on its medium term borrowings by effectively converting a portion of the fixed rate debt to floating. Citizens has outstanding interest rate swap agreements designed to hedge a portion of the Company's borrowed funds and deposit liabilities. By entering into a pay-fixed/receive-floating interest rate swap, a portion of these liabilities has been effectively converted to a fixed rate liability for the term of the interest rate swap agreement. The goal of the Company's interest rate hedging activity is to manage interest rate sensitivity so that movements in interest rates do not significantly adversely affect net interest income. For derivatives designated for hedging purposes, net interest accruals are treated as an adjustment of interest income or interest expense of the item being hedged.

Customer derivatives

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

Residential loan derivatives

Citizens 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. Citizens 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 also hedges the fair market value movements of certain mortgage servicing rights using various interest rate derivative contracts.

Citizens has certain derivative transactions which are designated as fair value or cash flow hedges, described as follows:

Derivatives designated as hedging instruments

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

Fair value hedges

If a derivative is designated as a fair value hedge, gains or losses attributable to the change in fair value of the derivative instrument, as well as the gains and losses attributable to the change in fair value of the hedged item, are recognized in other income in the period in which the change in fair value occurs. Hedge ineffectiveness is recognized as other income to the extent the changes in fair value of the derivative do not offset the changes in fair value of the hedged item. Changes in the fair value of derivatives that do not qualify as hedges are recognized immediately in other income.

Citizens has entered into interest rate swap agreements to manage the interest rate exposure on its medium term borrowings. The change in value of fair value hedges, to the extent that the hedging relationship is effective, is recorded through other income and offset against the change in the fair value of the hedged item.

The following table presents the effect on other income of fair value hedges, specifically hedges of interest rate risk on borrowings using interest rate swaps, described above, in millions:

Amounts Recognized in Other Income for the Year Ended December 31,

2018			2017			2016		
Derivative	Hedged Item	Hedge Ineffectiveness	Derivative	Hedged Item	Hedge Ineffectiveness	Derivative	Hedged Item	Hedge Ineffectiveness
$8	($9)	($1)	($26)	$27	$1	($6)	$5	($1)

Cash flow hedges

Citizens has outstanding interest rate swap agreements designed to hedge a portion of the Company's floating rate assets, and financing liabilities (including its borrowed funds). All of these swaps have been deemed as highly effective cash flow hedges. The effective portion of the hedging gains and losses associated with these hedges are recorded in OCI; the ineffective portion of the hedging gains and losses is recorded in earnings (other income). Hedging gains and losses on derivative contracts reclassified from OCI to current period earnings are included in the line item in the accompanying Consolidated Statements of Operations in which the hedged item is recorded and in the same period that the hedged item affects earnings. During the next 12 months, there are $15 million in pre-tax net losses on derivative instruments included in OCI expected to be reclassified to net interest income in the Consolidated Statements of Operations.

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

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The following table presents the effect of cash flow hedges on net income and stockholders' equity:

	Amounts Recognized for the Year Ended December 31,		
(in millions)	2018	2017	2016
Effective portion of loss recognized in OCI [1]	($44)	($23)	($100)
Amount of net (loss) gain reclassified from OCI to interest income [2]	(55)	25	90
Amount of net gain (loss) reclassified from OCI to interest expense [2]	12	—	(27)
Amounts reclassified from OCI to other income [3]	—	—	(5)

[1] The cumulative effective gains and losses on the Company's cash flow hedging activities are included on the accumulated other comprehensive loss line item on the Consolidated Balance Sheets.
[2] This amount includes both (i) the amortization of effective gains and losses associated with the Company's terminated cash flow hedges and (ii) the current reporting period's interest settlements realized on the Company's active cash flow hedges. Both (i) and (ii) were previously included on the accumulated other comprehensive loss line item on the Consolidated Balance Sheets and were subsequently recorded as adjustments to the interest income or expense of the underlying hedged item.
[3] This includes gains and losses attributable to previously hedged cash flows where the likelihood occurrence of those cash flows is no longer probable.

Derivatives not designated as hedging instruments

Economic hedges

The Company's customer derivatives are recorded on the Consolidated Balance Sheets at fair value. These include interest rate and foreign exchange derivative contracts that are designed to meet the hedging and financing needs of the Company's customers. The mark-to-market gains and losses associated with the customer derivatives are mitigated by mark-to-market gains and losses on interest rate and foreign exchange derivative contracts transacted. Citizens also purchases interest rate floors primarily to hedge the exposure related to customer deposit products that have embedded minimum interest rate guarantees. Citizens utilizes interest rate floors in non-qualifying hedging relationships.

The Company's residential loan derivatives (including residential loan commitments and forward sales contracts) are recorded on the Consolidated Balance Sheets at fair value. Citizens also uses derivatives to hedge the risk of changes in the fair value of its residential MSR portfolio measured at fair value. Certain residential MSRs are accounted for at fair value with changes in the fair value influenced primarily by changes in interest rates. Derivatives used to hedge the fair value of residential MSRs include TBAs, interest rate swaptions, interest rate futures and interest rate swaps.

The following table presents the effect of economic hedges on noninterest income:

	Affected Line Item in the Consolidated Statements of Operations	Amounts Recognized in Noninterest Income for the Year Ended December 31,		
(in millions)		2018	2017	2016
Economic Hedge Type				
Customer interest rate contracts	Foreign exchange and interest rate products	$5	$5	($23)
Customer foreign exchange contracts	Foreign exchange and interest rate products	(54)	172	(81)
Derivatives transactions to hedge interest rate risk	Foreign exchange and interest rate products	43	46	70
Derivatives transactions to hedge foreign exchange risk	Foreign exchange and interest rate products	158	(151)	95

Residential loan commitments	Mortgage banking fees	(3)	2	(2)
Forward sale contracts	Mortgage banking fees	21	(8)	6
Interest rate derivative contracts used to hedge residential MSRs	Mortgage banking fees	35	—	—
Total		$205	$66	$65

NOTE 14 - EMPLOYEE BENEFITS

Pension Plans

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

The qualified plan’s allocation by asset category is presented below:

	Target Asset Allocation	Actual Asset Allocation	
Asset Category	2018	2018	2017
Equity securities	53%	51.3 %	54.0 %
Debt securities	46%	47.6 %	45.0 %
Other	1%	1.1 %	1.0 %
Total		100.0%	100.0%

The written Pension Plan Investment Policy, set forth by the CFG Retirement Committee, formulates investment principles and guidelines that are appropriate for the needs and objectives of the Plan, and defines the management, structure, and monitoring procedures adopted for the ongoing operation of the aggregate funds of the Plan. Stated goals and objectives are:

- Achieve a total return, consistent with prudent investment management, that together with any new contributions from the Employer, will be sufficient to meet the benefits which the Plan seeks to provide.
- The nominal return target for the overall Plan is to meet or exceed the Plan’s Policy Index;
- Total portfolio risk exposure should generally rank in the mid-range of comparable funds. Risk-adjusted returns are expected to consistently rank in the top-half of comparable funds; and
- Investment managers shall meet or exceed the return of the designated benchmark index and rank in the top-half of the appropriate asset class and style universe.

The CFG Retirement Committee reviews, at least annually, the assets and net cash flow of the Plan, discusses the current economic outlook and the Plan’s investment strategy with the investment managers, reviews the current asset mix and its compliance with the Policy, and receives and considers statistics on the investment performance of the Plan and its managers.

The equity investment mandates follow a global equity approach. Investments are made in broadly diversified portfolios that contain investments in U.S. and non-U.S. developed and developing economies. The fixed income investment mandates are US investment grade mandates and follow a long duration investment approach. Investment in high-yield bonds are not allowed unless an investment grade bond is downgraded to a non-investment grade category.

The assets of the qualified plan may be invested in any or all of the following asset categories:

- Equity-oriented investments:

  domestic and foreign common and preferred stocks, and related rights, warrants, convertible debentures, and other common share equivalents
- Fixed income-oriented investments:

  domestic and foreign bonds, debentures and notes
  mortgages
  mortgage-backed securities
  asset-backed securities
  bank loans
  money market securities or cash
  financial futures and options on financial futures
  forward contracts

In addition, derivatives may be employed under the guidelines established for individual managers in order to manage risk exposures and/or to increase the efficiency of strategies. The extent to which derivatives are utilized will be specified in the investment guidelines for each manager. The Plan will not be exposed to losses through derivatives that exceed the capital invested.

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In selecting the expected long-term rate of return on assets, the Company considers the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of this Plan. This includes considering the trust's asset allocation and the expected returns likely to be earned over the life of the Plan. This basis is consistent with the prior year.

Changes in the fair value of defined benefit pension plan assets, projected benefit obligation, funded status, and accumulated benefit obligation are presented below:

	Year Ended December 31,			
	Qualified Plan		Non-Qualified Plan	
(in millions)	2018	2017	2018	2017
Fair value of plan assets as of January 1	$1,139	$1,015	$—	$—
Actual return on plan assets	(81)	185	—	—
Employer contributions	50	—	8	8
Benefits and administrative expenses paid	(58)	(61)	(8)	(8)
Fair value of plan assets as of December 31	1,050	1,139	—	—
Projected benefit obligation	972	1,089	95	106
Pension asset (obligation)	$78	$50	($95)	($106)
Accumulated benefit obligation	$972	$1,089	$95	$106

The defined benefit obligation experienced gains for the year ending December 31, 2018 due to the increase in the discount rate assumption and due to the change in future mortality improvement projection scale to Scale MP-2018 from Scale MP-2017. Citizens recognized actuarial gains and losses (for the qualified and non-qualified plans) in AOCI resulting in an ending balance of $618 million and $585 million at December 31, 2018 and 2017, respectively.

Other changes in plan assets and benefit obligations recognized in OCI (for the qualified, non-qualified and postretirement plans) are presented below:

	Year Ended December 31,		
(in millions)	2018	2017	2016
Net periodic pension income	($16)	($2)	($1)
Net actuarial loss (gain)	49	(31)	54
Amortization of prior service credit	1	1	1
Amortization of net actuarial loss	(17)	(18)	(16)
Total recognized in other comprehensive income (loss)	33	(48)	39
Total recognized in net periodic pension cost and other comprehensive income (loss)	$17	($50)	$38

Pension costs under defined benefit plans are actuarially computed and include current service costs and amortization of prior service costs over the participants' average future working lifetime. The actuarial cost method used in determining the net periodic pension cost is the projected unit method.

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The components of net periodic pension (income) cost for the Company's qualified and non-qualified plans are presented below:

	Year Ended December 31,								
	Qualified Plan			Non-Qualified Plan			Total		
(in millions)	2018	2017	2016	2018	2017	2016	2018	2017	2016
Service cost	$3	$3	$3	$—	$—	$—	$3	$3	$3
Interest cost	39	42	44	4	4	4	43	46	48
Expected return on plan assets	(79)	(69)	(68)	—	—	—	(79)	(69)	(68)
Amortization of actuarial loss	15	16	14	2	2	2	17	18	16
Net periodic pension (income) cost(1)	($22)	($8)	($7)	$6	$6	$6	($16)	($2)	($1)

(1) In the Consolidated Statements of Operations, service cost is presented in salaries and employee benefits, and all other components of net periodic pension (income) costs are presented in other operating expense.

Weighted-average rates assumed in determining the actuarial present value of benefit obligations and net periodic benefit cost are presented below:

	As of and for the Year Ended December 31,		
	2018	2017	2016
Assumptions for benefit obligations			
Discount rate-qualified plan	4.330%	3.670%	4.190%
Discount rate-non-qualified plan	4.240%	3.530%	4.050%
Expected long-term rate of return on plan assets	7.000%	7.000%	7.500%
Assumptions for net periodic pension cost			
Discount rate-qualified plan	3.670%	4.190%	4.640%
Discount rate-non-qualified plan	3.530%	4.050%	4.540%
Expected long-term rate of return on plan assets	7.000%	7.000%	7.500%

On September 12, 2018, Citizens made a contribution of $50 million to the qualified plan. No contribution was made to the qualified plan in 2017. Citizens expects to contribute approximately $9 million to the non-qualified plan in 2019. No contribution to the qualified plan is planned in 2019.

Expected future benefit payments for the qualified and non-qualified plans are presented below:

	(in millions)
Expected benefit payments by fiscal year ending:	
December 31, 2019	$64
December 31, 2020	64
December 31, 2021	65
December 31, 2022	66
December 31, 2023	67
December 31, 2024 - 2028	340

Fair Value Measurements

The following valuation techniques are used to measure the qualified pension plan assets at fair value:

Cash and money market funds and U.S government obligations:

Cash and money market funds represent instruments that generally mature in one year or less and are valued at cost, which approximates fair value. U.S. government obligations are valued at quoted prices in active markets for identical assets. These investments are classified as Level 1.

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Non-U.S government obligations, municipal obligations, corporate bonds, bank loans, and asset-backed securities: Non-U.S. government obligations, municipal obligations, corporate bonds, bank loans, and asset-backed securities are valued at the quoted market prices determined in the active markets in which the securities are traded. If quoted market prices are not available, the fair value for the security is estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. These investments are classified as Level 2, because they currently trade in active markets for similar securities and the inputs to the valuations are observable.
The following table presents qualified pension plan assets measured at fair value within the fair value hierarchy:

	Fair Value Measurements as of December 31, 2018			
(in millions)	Total	Level 1	Level 2	Level 3
Assets:				
Cash and money market funds	$12	$12	$—	$—
Managed portfolio assets:				
U.S. government obligations	5	5	—	—
Non-U.S. government obligations	1	—	1	—
Municipal obligations	1	—	1	—
Corporate bonds	99	—	99	—
Bank loans	1	—	1	—
Total assets in the fair value hierarchy	119	17	102	—
Investments measured at net asset value [1]	931			
Assets at fair value at measurement date of December 31, 2018	$1,050	$17	$102	$—

[1]Certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

The following table presents qualified pension plan assets measured at fair value within the fair value hierarchy:

	Fair Value Measurements as of December 31, 2017			
(in millions)	Total	Level 1	Level 2	Level 3
Assets:				
Managed portfolio assets				
U.S. government obligations	$8	$—	$8	$—
Non-U.S. government obligations	2	—	2	—
Municipal obligations	1	—	1	—
Corporate bonds	102	—	102	—
Asset-backed securities	1	—	1	—
Total assets in the fair value hierarchy	114	—	114	—
Investments measured at net asset value [1]	1,024			
Assets at fair value at measurement date of December 31, 2017	$1,138	$—	$114	$—

[1]Certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

There were no transfers among Levels 2 or 3 during the years ended December 31, 2018 and 2017. The fair values of participation units held in the common and collective funds and limited partnerships are based on NAV.

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The following table presents the unfunded commitments, redemption frequency and redemption notice period for Plan investments that utilize net asset value to determine fair value:

	Fair Value Estimated Using Net Asset Value per Share December 31,					
Investment (dollars in millions)	2018	2017	Unfunded Commitment	Redemption Frequency	Redemption Restrictions	Redemption Notice Period
Liquid Cash Fund	$—	$11	$—	Daily	None	Same day before 5:30pm ET
Common and Collective Funds:						
Global equities funds	399	472	—	Daily	None	3 days
Balanced funds	221	214	—	Daily	None	2 days
Fixed income fund	139	150	—	Daily	None	3 days
Managed Portfolio - Fixed Income Mutual Fund [1]	32	35	—	Daily	None	1 days
Limited Partnerships:						
Global equity fund	140	142	—	Monthly	None	3 days
Total	$931	$1,024	$—			

[1] The managed portfolio fixed income mutual fund seeks to outperform the Barclay’s U.S. Long Credit Index or similar benchmark.

Postretirement Benefits

Citizens provides health care insurance benefits to eligible retirees and their spouses, domestic partners and eligible dependents through age 65, at which time Medicare becomes the primary coverage provider. Employees enrolled in medical coverage immediately prior to retirement and meeting eligibility requirements can elect retiree medical coverage. Coverage must be elected at the time of retirement and cannot be elected at a future date. Spouses, domestic partners and eligible dependents may be covered only if covered at the time of the employee’s retirement. Citizens reviews coverage on an annual basis and reserves the right to modify or cancel coverage at any renewal date. Effective July 1, 2014, the Company utilizes a private health care exchange to provide medical and dental benefits to current and future Medicare-eligible plan participants. Citizens provides a fixed subsidy to a small, closed group of eligible participants based on the subsidy levels prior to July 1, 2014; eligible participants pay the cost of benefits in excess of the fixed subsidy. The cost of postretirement benefits other than pensions is recognized on an accrual basis during the periods employees provide services to earn those benefits.

Expected future benefit payments for the postretirement benefit plan are presented below:

	(in millions)
Expected benefit payments by fiscal year ending:	
December 31, 2019	$1
December 31, 2020	1
December 31, 2021	1
December 31, 2022	1
December 31, 2023	1
December 31, 2024 - 2028	5

Citizens expects to contribute approximately $1 million to the postretirement benefit plan during 2019.

The discount rate assumed in determining the actuarial present value of benefit obligations was 3.98% as of December 31, 2018 compared with 3.20% as of December 31, 2017. For measurement purposes, the assumed annual rate of increase in the per capita cost of covered health care benefits was 6.5% in December 31, 2018 and is expected to decrease gradually to 5.0% by 2025. On December 31, 2017 the assumed annual rate of increase in the per capita cost of covered health care benefits was 7.0% and was expected to decrease gradually to 5.0% by 2022.

Weighted-average rates assumed in determining the net periodic benefit cost of the postretirement benefits plan are as follows:

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(dollars in millions)	For the Year Ended December 31, 2018	2017
Discount rate	3.200%	3.530%
Rate of compensation increase	N/A	N/A

401(k) Plan

Citizens sponsors a 401(k) plan under which employee tax-deferred/Roth after-tax contributions to the plan are matched by the Company after completion of one year of service. Effective January 1, 2015, contributions were matched at 100% up to an overall limitation of 4% on a pay period basis. Substantially all employees will receive an additional 2% of earnings after completion of one year of service, subject to limits set by the Internal Revenue Service. Amounts contributed and expensed by the Company were $68 million in 2018 compared to $61 million in 2017 and $55 million in 2016.

NOTE 15 - RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in the balances, net of income taxes, of each component of AOCI:

(in millions)	Net Unrealized (Losses) Gains on Derivatives	Net Unrealized (Losses) Gains on Securities	Employee Benefit Plans	Total AOCI
Balance at January 1, 2016	$10	($28)	($369)	($387)
Other comprehensive loss before reclassifications	(62)	(139)	—	(201)
Other-than-temporary impairment not recognized in earnings on debt securities	—	(17)	—	(17)
Amounts reclassified to the Consolidated Statements of Operations	(36)	(2)	(25)	(63)

Net other comprehensive loss	(98)	(158)	(25)	(281)
Balance at December 31, 2016	($88)	($186)	($394)	($668)
Other comprehensive loss before reclassifications	(14)	(6)	—	(20)
Amounts reclassified to the Consolidated Statements of Operations	(16)	(2)	31	13
Net other comprehensive loss	(30)	(8)	31	(7)
Reclassification of tax effects resulting from the 2017 Tax Legislation [1]	($25)	($42)	($78)	($145)
Balance at December 31, 2017	($143)	($236)	($441)	($820)
Other comprehensive loss before reclassifications	(33)	(239)	—	(272)
Other-than-temporary impairment not recognized	—	(3)	—	(3)

in earnings on debt securities				
Amounts reclassified to the Consolidated Statements of Operations	33	(12)	(22)	(1)
Net other comprehensive loss	—	(254)	(22)	(276)
Balance at December 31, 2018	($143)	($490)	($463)	($1,096)

(1) As of December 31, 2017, the balance of AOCI reflects the retrospective adoption of FASB ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. For further discussion, see Note 22 “Income Taxes.”

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The following table presents the amounts reclassified out of each component of AOCI and into the Consolidated Statements of Operations:

(in millions)	Year Ended December 31, 2018	2017	2016	
Details about AOCI Components				Affected Line Item in the Consolidated Statements of Operations
Reclassification adjustment for net derivative (losses) gains included in net income:	($55)	$25	$90	Interest income
	12	—	(27)	Interest expense
	—	—	(5)	Other income
	(43)	25	58	Income before income tax expense
	(10)	9	22	Income tax expense
	($33)	$16	$36	Net income
Reclassification of net securities gains (losses) to net income:	$19	$11	$16	Securities gains, net
	(3)	(7)	(12)	Net debt securities impairment losses recognized in earnings
	16	4	4	Income before income tax expense
	4	2	2	Income tax expense
	$12	$2	$2	Net income
Reclassification of changes related to the employee benefit plan:	$33	($48)	$39	Salaries and employee benefits
	33	(48)	39	Income before income tax expense
	11	(17)	14	Income tax expense
	$22	($31)	$25	Net income
Total reclassification gains (losses)	$1	($13)	$63	Net income

The following table presents the effects on net income of the amounts reclassified out of AOCI:

(in millions)	Year Ended December 31, 2018	2017	2016
Net interest income (includes ($43), $25 and $63 of AOCI reclassifications, respectively)	$4,532	$4,173	$3,758
Provision for credit losses	326	321	369
Noninterest income (includes $16, $4 and ($1) of AOCI reclassifications, respectively)	1,596	1,534	1,497
Noninterest expense (includes ($33), $48 and ($39) of AOCI reclassifications, respectively)	3,619	3,474	3,352
Income before income tax expense	2,183	1,912	1,534
Income tax expense (includes $5, ($6) and $38 income tax net expense from reclassification items, respectively)	462	260	489
Net income	$1,721	$1,652	$1,045

NOTE 16 - STOCKHOLDERS' EQUITY

Preferred Stock

The following table provides the number of authorized preferred shares, the number of issued and outstanding, the liquidation value per share and the carrying amount as of December 31:

(in millions, except per share and share data)	Liquidation value per	2018 Preferred Shares	Carrying Amount	2017 Preferred Shares	Carrying Amount

	share				
Authorized ($25 par value)		100,000,000		100,000,000	
Issued and outstanding					
Series A	$1,000	250,000	$247	250,000	$247
Series B	1,000	300,000	296	—	—
Series C	1,000	300,000	297	—	—
Total issued and outstanding		850,000	$840	250,000	$247

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The following table provides information related to the Company's preferred stock outstanding as of December 31, 2018:
(in millions, except per share and share data)

Preferred Stock[1]	Issue Date	Number of Shares Issued	Dividend Dates[2]	Annual Per Share Dividend Rate	Optional Redemption Date[3]
Series A	April 6, 2015	250,000	Semi-annually beginning October 6, 2015 until April 6, 2020	5.500% until April 6, 2020	April 6, 2020
			Quarterly beginning July 6, 2020	3 Mo. LIBOR plus 3.960% beginning April 6, 2020	
Series B	May 24, 2018	300,000	Semi-annually beginning January 6, 2019 until July 6, 2023	6.000% until July 6, 2023	July 6, 2023
			Quarterly beginning October 6, 2023	3 Mo. LIBOR plus 3.003% beginning July 6, 2023	
Series C	October 25, 2018	300,000	Quarterly beginning January 6, 2019 until April 6, 2024	6.375% until April 6, 2024	April 6, 2024
			Quarterly beginning July 6, 2024	3 Mo. LIBOR plus 3.157% beginning April 6, 2024	

(1) All outstanding series are non-cumulative fixed-to-floating rate perpetual preferred stock. Except in limited circumstances, the preferred stock does not have voting rights.
(2) Dividends are payable when, and if, declared by the Company's Board of Directors or an authorized committee thereof.
(3) Redeemable at the Company's option, in whole or in part, on any dividend payment date on or after the date stated, or in whole but not in part, at any time within 90 days following a regulatory capital treatment event a as defined in the applicable certificate of designations, in each case at a redemption price equal to $1,000 per share, plus any declared and unpaid dividends, without accumulation of any undeclared dividends. Under current rules, any redemption is subject to approval by the FRB.

On January 29, 2019, the Company issued $300 million, or 12,000,000 depositary shares, each representing a 1/40th interest in a share of its 6.350% fixed-to-floating rate non-cumulative perpetual Series D Preferred Stock, liquidation preference of $1,000 per share (equivalent to $25 per depositary share) (the "Series D Preferred Stock"). The Company received net proceeds of $293 million after the underwriting discount and other expenses. The Series D Preferred Stock has no stated maturity and will not be subject to any sinking fund or other obligation of the Company. Dividends, if declared, will accrue and be payable quarterly, in arrears, at a rate equal to 6.350% per annum from the date of issuance to, but excluding, April 6, 2024, and thereafter at a floating rate per annum equal to three-month LIBOR plus 3.642%, payable quarterly, in arrears, beginning July 6, 2024. The Series D Preferred Stock is redeemable at the Company's option, in whole or in part, on any dividend payment date, on or after April 6, 2024, or in whole but not in part, at any time within the 90 days following a regulatory capital treatment event, in each case at a redemption price equal to $1,000 per share (equivalent to $25 per depositary share), plus any declared and unpaid dividends. The Company may not redeem shares of the Series D Preferred Stock without obtaining the prior approval of the FRB if then required under applicable capital guidelines. Except in certain limited circumstances, the Series D Preferred Stock does not have any voting rights.

Dividends

The following table provides information related to dividends per share and in the aggregate, declared and paid, for each type of stock issued and outstanding for the year ended December 31:

	2018			2017			2016		
(in millions, except per share and share data)	Dividends per Share	Dividends Declared	Dividends Paid	Dividends per Share	Dividends Declared	Dividends Paid	Dividends per Share	Dividends Declared	Dividends Paid
Common stock	$0.98	$471	$471	$0.64	$322	$322	$0.46	$241	$241
Preferred stock									
Series A	$55.00	$14	$14	$55.00	$14	$14	$55.00	$14	$14
Series B	37.00	11	—	—	—	—	—	—	—
Series C	12.57	4	—	—	—	—	—	—	—
Total preferred stock		$29	$14		$14	$14		$14	$14

Treasury Stock

The purchase of the Company's common stock is recorded at cost. At the date of retirement or subsequent reissuance, treasury stock is reduced by the cost of such stock on a first-in, first-out basis with differences recorded in additional paid-in capital or retained earnings, as applicable.

During the year ended December 31, 2018, the Company paid $1.025 billion to repurchase 25,773,807 common shares at a weighted-average price of $39.77; $1.025 billion was recorded in treasury stock. The repurchased shares are held in treasury stock. During the year ended December 31, 2018, the Company recorded no shares of treasury stock associated with share-based compensation plan activity.

During the year ended December 31, 2017, the Company paid $820 million to repurchase 22,362,401 common shares at an average price of $36.67; $845 million was recorded in treasury stock and $25 million was recorded in additional paid in capital. The repurchased shares are held in treasury stock. During the year ended December 31, 2017, the Company recorded no shares of treasury stock associated with share-based compensation plan activity.

NOTE 17 - SHARE-BASED COMPENSATION

Citizens has share-based employee compensation plans as outlined below, pursuant to which stock awards are granted to employees and non-employee directors.

Employees of the Company hold time-based restricted stock units and performance-based restricted stock units. A restricted stock unit is the right to receive shares of stock on a future date, which may be subject to time-based vesting conditions and/or performance-based vesting conditions. If a dividend is paid on shares underlying the awards prior to the date such shares are distributed, those dividends will be distributed following vesting in the same form as the dividend that has been paid to common stockholders generally.

Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan. Certain employees of the Company hold time-based restricted stock units and performance-based restricted stock units granted under this plan. Time-based restricted stock units granted generally become vested ratably over a three-year period and performance-based restricted stock units granted generally become vested at the end of a three-year performance period, depending on the level of performance achieved during such period.

Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan. Non-employee directors receive grants of time-based restricted stock units under this plan as compensation for their services pursuant to the Citizens Financial Group, Inc. Directors Compensation Policy. Restricted stock units granted to directors are fully vested on the grant date, with settlement of the awards deferred until a director's cessation of service.

Citizens Financial Group, Inc. 2014 Employee Stock Purchase Plan. Citizens also maintains the Citizens Financial Group, Inc. Employee Stock Purchase Plan (the "ESPP"), which provides eligible employees an opportunity to purchase its common stock at a 10% discount, through accumulated payroll deductions. Eligible employees may contribute up to 10% of eligible compensation to the ESPP, up to a maximum purchase of $25,000 worth of stock in any calendar year. Offering periods under the ESPP are quarterly. Shares of CFG common stock are purchased for a participant on the last day of each quarter at a 10% discount from the fair market value (fair market value under the plan is defined as the closing price on the day of purchase). Prior to the date the shares are purchased, participants do not have any rights or privileges as a stockholder with respect to shares to be purchased at the end of the offering period.

Summary of Share-Based Plans Activity

The following table presents the activity related to the Company's share-based plans (excluding the ESPP) for the year ended December 31, 2018:

	Shares Underlying Awards	Weighted-Average Grant Price
Outstanding, January 1	2,621,514	$33.30
Granted	1,174,501	39.54
Vested & Distributed	(877,111)	30.50
Forfeited	(25,623)	35.88
Outstanding, December 31	2,893,281	$34.04

During the years ended December 31, 2018, 2017 and 2016, the following number of CFG share awards were granted: 2018: (1,174,501 granted with a weighted-average grant price of $39.54); 2017 (1,256,816 granted with weighted-average grant price of $39.09); and 2016 (1,552,416 granted with weighted-average grant price of $24.53). In addition, the following number of CFG share awards became vested and distributed: 2018 (877,111 vested and distributed with a weighted-average grant price of $30.50); 2017 (1,426,850 vested with weighted-average grant price of $21.91); and 2016 (1,762,655 vested with weighted-average grant price of $22.14).

There are 49,742,766 shares of Company common stock available for awards to be granted under the Omnibus Plan and Directors Plan. In addition, there are 6,255,128 shares available for awards under the ESPP. Upon settlement of share-based awards, the Company generally issues new shares, but may also issue shares from treasury stock.

Compensation Expense

Citizens measures compensation expense related to stock awards based upon the fair value of the awards on the grant date. Compensation expense is adjusted for forfeitures as they occur. The related expense is charged to earnings on a straight-line basis over the requisite service period (e.g., vesting period) of the award. With respect to performance-based stock awards, compensation expense is adjusted upward or downward based upon the probability of achievement of performance. Awards that continue to vest after retirement are expensed over the shorter of the period of time from grant date to the final vesting date or from the grant date to the date when an employee is retirement eligible. Awards granted to employees who are retirement eligible at the grant date are generally expensed immediately upon grant.

Compensation expense related to the share plans (including the ESPP) was $41 million, $39 million, and $23 million for the years ended December 31, 2018, 2017, and 2016, respectively. At December 31, 2018, the total unrecognized compensation expense for nonvested equity awards granted was $41 million. This expense is expected to be recognized over a weighted-average period of two years. No share-based compensation costs were capitalized during the years ended December 31, 2018, 2017, and 2016.

The income tax benefit recognized in earnings based on the compensation expense recognized for all share-based compensation arrangements amounted to $3 million, $9 million and $8 million for the years ended December 31, 2018, 2017, and 2016, respectively.

NOTE 18 - COMMITMENTS AND CONTINGENCIES

A summary of outstanding off-balance sheet arrangements is presented below:

	December 31,	
(in millions)	2018	2017
Undrawn commitments to extend credit	$69,553	$62,959
Letters of credit	2,125	2,136
Marketing rights	37	41
Risk participation agreements	19	16
Residential mortgage loans sold with recourse	5	7
Total	$71,739	$65,159

Commitments to Extend Credit

Commitments to extend credit are agreements to lend to customers in accordance with conditions contractually agreed upon in advance. Generally, the commitments have fixed expiration dates or termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being drawn upon, the contract amounts are not necessarily indicative of future cash requirements.

Letters of Credit

Letters of credit in the table above reflect commercial, standby financial and standby performance letters of credit. Standby letters of credit, both financial and performance, are issued by the Company for its customers. They are used as conditional guarantees of payment to a third party in the event the customer either fails to make specific payments (financial) or fails to complete a specific project (performance). Commercial letters of credit are used to facilitate the import of goods. The commercial letter of credit is used as the method of payment to the Company’s customers’ suppliers. The Company’s exposure to credit loss in the event of counterparty nonperformance in connection with the above instruments is represented by the contractual amount of those instruments, net of the value of collateral held. Standby letters of credit and commercial letters of credit are issued for terms of up to ten years and one year, respectively.

Generally, letters of credit are collateralized by cash, accounts receivable, inventory or investment securities. Credit risk associated with letters of credit is considered in determining the appropriate amounts of reserves for unfunded commitments.

Citizens recognizes a liability on the Consolidated Balance Sheets representing its obligation to stand ready to perform over the term of the standby letters of credit in the event that the specified triggering events occur. The liability for these guarantees was $3 million at December 31, 2018 and 2017.

Marketing Rights

During 2003, Citizens entered into a 25-year agreement to acquire the naming and marketing rights of a baseball stadium in Pennsylvania. The Company paid $4 million and $3 million for the years ended December 31, 2018 and 2017, respectively, and is obligated to pay $37 million over the remainder of the contract.

Risk Participation Agreements

RPAs are guarantees issued by the Company to other parties for a fee, whereby the Company agrees to participate in the credit risk of a derivative customer of the other party. Under the terms of these agreements, the "participating bank" receives a fee from the "lead bank" in exchange for the guarantee of reimbursement if the customer defaults on an interest rate swap. The interest rate swap is transacted such that any and all exchanges of interest payments (favorable and unfavorable) are made between the lead bank and the customer. In the event that an early termination of the swap occurs and the customer is unable to make a required close out payment, the participating bank assumes that obligation and is required to make this payment.

RPAs where the Company acts as the lead bank are referred to as "participations-out," in reference to the credit risk associated with the customer derivatives being transferred out of the Company. Participations-out generally occur concurrently with the sale of new customer derivatives. RPAs where the Company acts as the participating bank are referred to as "participations-in," in reference to the credit risk associated with the counterparty's derivatives being assumed by the Company. The Company's maximum credit exposure is based on its proportionate share of the settlement amount of the referenced interest rate swap. Settlement amounts are generally calculated based on the fair value of the swap plus outstanding accrued interest receivable from the customer. The Company's estimate of the credit exposure associated with its risk participations-in as of December 31, 2018 and 2017 is $19 million and $16 million, respectively. The current amount of credit exposure is spread out over 84 counterparties. RPAs generally have terms ranging from one to five years; however, certain outstanding agreements have terms as long as ten years.

Residential Loans Sold with Recourse

Citizens is an originator and servicer of residential mortgages and routinely sells such mortgage loans in the secondary market and to government-sponsored entities. In the context of such sales, the Company makes certain representations and warranties regarding the characteristics of the underlying loans and, as a result, may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of those representations and warranties.

Other Commitments

The Company's commercial loan trading desk provides ongoing secondary market support and liquidity to its clients. Unsettled loan trades (i.e., loan purchase contracts) represent firm commitments to purchase loans from a third party at an agreed-upon price. Principal amounts associated with unsettled commercial loan trades are off-balance sheet commitments until delivery of the loans has taken place. Fair value adjustments associated with each unsettled loan trade are recognized on the Consolidated Balance Sheets and classified within other assets or other liabilities, depending on whether the fair value of the unsettled trade represents an unrealized gain or unrealized loss. The principal balances of unsettled commercial loan trade purchases and sales were $68 million and $161 million, respectively, at December 31, 2018 and $65 million and $132 million, respectively, at December 31, 2017. Settled loans purchased by the trading desk are classified as loans held for sale, at fair value on the Consolidated Balance Sheets. Refer to Note 19 "Fair Value Measurements" for further information.

Contingencies

The Company operates in a legal and regulatory environment that exposes it to potentially significant risks. A certain amount of litigation ordinarily results from the nature of the Company's banking and other businesses. The Company is a party to legal proceedings, including class actions. The Company is also the subject of investigations, reviews, subpoenas, and regulatory matters arising out of its normal business operations, which, in some instances, relate to concerns about fair lending, unfair and/or deceptive practices, mortgage-related issues, and mis-selling of certain products. In addition, the Company engages in discussions with relevant governmental and regulatory authorities on a regular and ongoing basis regarding various issues, and any issues discussed or identified may result in investigatory or other action being taken. Litigation and regulatory matters may result in settlements, damages, fines, penalties, public or private censure, increased costs, required remediation, restrictions on business activities, or other impacts on the Company.

In these disputes and proceedings, the Company contests liability and the amount of damages as appropriate. Given their complex nature, and based on the Company's experience, it may be years before some of these matters are finally resolved. Moreover, before liability can be reasonably estimated for a claim, numerous legal and factual issues may need to be examined, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal issues relevant to the proceedings in question.

The Company cannot predict with certainty if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages. The Company recognizes a provision for a claim when, in the opinion of management after seeking legal advice, it is probable that a liability exists and the amount of loss can be reasonably estimated. In many proceedings, however, it is not possible to determine whether any loss is probable or to estimate the amount of any loss.

Based on information currently available, the advice of legal counsel and other advisers, and established reserves, management believes that the aggregate liabilities, if any, potentially arising from these proceedings will not have a materially adverse effect on the Company’s Consolidated Financial Statements.

NOTE 19 - FAIR VALUE MEASUREMENTS

Citizens 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. Citizens also applies the fair value measurement guidance to determine amounts reported for certain disclosures in this Note for assets and liabilities that are not required to be reported at fair value in the financial statements.

Fair Value Option

Citizens elected to account for residential mortgage loans held for sale and certain commercial and commercial real estate loans held for sale at fair value. Applying fair value accounting to the residential mortgage loans held for sale better aligns the reported results of the economic changes in the value of these loans and their related economic hedge instruments. Certain commercial and commercial real estate held for sale loans are managed by a commercial secondary loan desk that provides liquidity to banks, finance companies and institutional investors. Applying fair value accounting to this portfolio is appropriate because the Company holds these loans with the intent to sell within the near-term periods.

Residential Mortgage Loans Held for Sale

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

The election of the fair value option for financial assets and financial liabilities is optional and irrevocable. The residential mortgage loans accounted for under the fair value option are initially measured at fair value (i.e., acquisition cost) when the financial asset is acquired. Subsequent changes in fair value are recognized in mortgage banking fees on the Consolidated Statements of Operations. The Company recognized changes in fair value in mortgage banking income of $6 million, $6 million, and ($5) million for the years ended December 31, 2018, 2017 and 2016, respectively.

Interest income on residential mortgage loans held for sale is calculated based on the contractual interest rate of the loan and is recorded in interest income.

Commercial and Commercial Real Estate Loans Held for Sale

The fair value of commercial and commercial real estate loans held for sale is estimated using observable prices of similar loans that transact in the marketplace. In addition, Citizens uses external pricing services that provide estimates of fair values based on quotes from various dealers transacting in the market, sector curves or

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benchmarking techniques. Therefore, the Company classifies the commercial and commercial real estate loans managed by the commercial secondary loan desk in Level 2 of the fair value hierarchy given the observable market inputs.

There were no loans in this portfolio that were 90 days or more past due or nonaccruing as of December 31, 2018. 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 other noninterest income on the Consolidated Statements of Operations. Since all loans in the Company's commercial trading portfolio consist of floating rate obligations, all changes in fair value are due to changes in credit risk. Such credit-related fair value changes may include observed changes in overall credit spreads and/or changes to the creditworthiness of an individual borrower. Unsettled trades within the commercial trading portfolio are not recognized on the Consolidated Balance Sheets and represent off-balance sheet commitments. Refer to Note 18 "Commitments and Contingencies" for further information.

Interest income on commercial and commercial real estate loans held for sale is calculated based on the contractual interest rate of the loan and is recorded in interest income. Citizens recognized ($2) million, $4 million and $4 million for the years ended December 31, 2018, 2017 and 2016, respectively, in other noninterest income related to its commercial trading portfolio.

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

(in millions)	December 31, 2018			December 31, 2017		
	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	$967	$967	$—	$326	$326	$—
Commercial and commercial real estate loans held for sale, at fair value	252	252	—	171	171	—

Recurring Fair Value Measurements

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

A portion of the Company's assets and liabilities is carried at fair value, including securities available for sale, derivative instruments and other investment securities. In addition, the Company elects to account for its loans associated with its mortgage banking business and secondary loan trading desk at fair value. Citizens classifies its assets and liabilities that are carried at fair value in accordance with the three-level valuation hierarchy:

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

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

Citizens reviews and updates the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs in fair value measurements may result in a reclassification between the fair value hierarchy levels and are recognized based on period-end balances.

Citizens utilizes a variety of valuation techniques to measure its assets and liabilities at fair value. The valuation methodologies used for significant assets and liabilities carried on the balance sheet at fair value on a recurring basis are presented below:

Debt securities available for sale

The fair value of debt securities classified as AFS is based upon quoted prices, if available. Where observable quoted prices are available in an active market, the security is classified as Level 1 in the fair value hierarchy. Classes of instruments that are valued using this market approach include debt securities issued by the U.S. Treasury. If quoted market prices are not available, the fair value for the security is estimated under the market or income approach using pricing models. These instruments are classified as Level 2 because they currently trade in active markets and the inputs to the valuations are observable. The pricing models used to value securities generally begin with market prices (or rates) for similar instruments and make adjustments based on the characteristics of the instrument being valued. These adjustments reflect assumptions made regarding the sensitivity of each security’s value to changes in interest rates and prepayment speeds. Classes of instruments that are valued using this market approach include specified pool mortgage “pass-through” securities and other debt securities issued by U.S. government-sponsored entities and state and political subdivisions. The pricing models used to value securities under the income approach generally begin with the contractual cash flows of each security and make adjustments based on forecasted prepayment speeds, default rates, and other market-observable information. The adjusted cash flows are then discounted at a rate derived from observed rates of return for comparable assets or liabilities that are traded in the market. Classes of instruments that are valued using this market approach include residential and commercial CMOs.

A significant majority of the Company’s Level 1 and 2 debt securities are priced using an external pricing service. Citizens 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 valuation discrepancies beyond a certain threshold are researched and, if necessary, corroborated by an independent outside broker.

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

Residential loans held for sale

See the “Fair Value Option, Residential Mortgage Loans Held for Sale” discussion above.

Commercial loans held for sale

See the “Fair Value Option, Commercial and Commercial Real Estate Loans Held for Sale” discussion above.

Mortgage Servicing Rights — Fair Value Method

MSRs do not trade in an active market with readily observable prices. MSRs are classified as Level 3 since the valuation methodology utilizes significant unobservable inputs. The fair value was calculated using a discounted cash flow model which used assumptions, including weighted-average life, prepayment assumptions and weighted-average option adjusted spread. The underlying assumptions and estimated values are corroborated by values received from independent third parties based on their review of the servicing portfolio, and comparisons to market transactions. In addition, the MSR Policy is approved by the Asset Liability Committee. Refer to Note 8 “Mortgage Banking” for more information.

Derivatives

The vast majority of the Company’s derivatives portfolio is composed of “plain vanilla” interest rate swaps, which are traded in over-the-counter markets where quoted market prices are not readily available. For these interest rate derivatives, fair value is determined utilizing models that primarily use market observable inputs, such as swap rates and yield curves. The pricing models used to value interest rate swaps calculate the sum of each instrument’s fixed and variable cash flows, which are then discounted using an appropriate yield curve (i.e., LIBOR or Overnight Index Swap curve) to arrive at the fair value of each swap. The pricing models do not contain a high level of subjectivity as the methodologies used do not require significant judgment. Citizens also considers certain adjustments to the modeled price that market participants would make when pricing each instrument, including a credit valuation adjustment that reflects the credit quality of the swap counterparty. Citizens incorporates the effect of exposure to a particular counterparty's credit by netting its derivative contracts with the available collateral and calculating a credit valuation adjustment on the basis of the net position with the counterparty where permitted. The determination of this adjustment requires judgment on behalf of Company management; however, the total amount of this portfolio-level adjustment is not material to the total fair value of the interest rate swaps in their entirety. Therefore, interest rate swaps are classified as Level 2 in the valuation hierarchy.

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

Money Market Mutual Fund Investments

Fair value is determined based upon unadjusted quoted market prices and is considered a Level 1 fair value measurement.

Other equity securities

The fair values of the Company's other equity securities are based on security prices in markets that are not active; therefore, these investments are classified as Level 2 in the fair value hierarchy.

The following table presents assets and liabilities measured at fair value, including gross derivative assets and liabilities on a recurring basis at December 31, 2018:

(in millions)	Total	Level 1	Level 2	Level 3
Debt securities available for sale:				
Mortgage-backed securities	$19,866	$—	$19,866	$—
State and political subdivisions	5	—	5	—
U.S. Treasury and other	24	24	—	—
Total debt securities available for sale	19,895	24	19,871	—
Loans held for sale, at fair value:				
Residential loans held for sale	967	—	967	—
Commercial loans held for sale	252	—	252	—
Total loans held for sale, at fair value	1,219	—	1,219	—
Mortgage servicing rights	600	—	—	600
Derivative assets				
Interest rate contracts	306	—	306	—
Foreign exchange contracts	129	—	129	—
Other contracts	14	—	14	—
Total derivative assets	449	—	449	—
Equity securities, at fair value:				
Money market mutual fund investments	181	181	—	—
Other investments	—	—	—	—
Total equity securities, at fair value	181	181	—	—
Total assets	$22,344	$205	$21,539	$600
Derivative liabilities				
Interest rate contracts	$277	$—	$277	$—
Foreign exchange contracts	113	—	113	—
Other contracts	25	—	25	—
Total derivative liabilities	415	—	415	—
Total liabilities	$415	$—	$415	$—

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The following table presents assets and liabilities measured at fair value including gross derivative assets and liabilities on a recurring basis at December 31, 2017:

(in millions)	Total	Level 1	Level 2	Level 3
Debt securities available for sale:				
Mortgage-backed securities	$20,139	$—	$20,139	$—
State and political subdivisions	6	—	6	—
U.S. Treasury and other	12	12	—	—
Total debt securities available for sale	20,157	12	20,145	—
Loans held for sale, at fair value:				
Residential loans held for sale	326	—	326	—
Commercial loans held for sale	171	—	171	—
Total loans held for sale, at fair value	497	—	497	—
Derivative assets				
Interest rate contracts	538	—	538	—
Foreign exchange contracts	148	—	148	—
Other contracts	7	—	7	—
Total derivative assets	693	—	693	—
Equity securities, at fair value:				
Money market mutual fund investments	165	165	—	—
Other investments	4	—	4	—
Total equity securities, at fair value	169	165	4	—
Total assets	$21,516	$177	$21,339	$—
Derivative liabilities				
Interest rate contracts	$379	$—	$379	$—
Foreign exchange contracts	149	—	149	—
Other contracts	5	—	5	—
Total derivative liabilities	533	—	533	—
Total liabilities	$533	$—	$533	$—

The following table present a rollforward of the balance sheet amounts for assets measured at fair value on a recurring basis and classified as Level 3 for the year ended December 31, 2018. There were no assets measured at fair value on a recurring basis and classified as Level 3 for the year ended December 31, 2017.

(in millions)	For the Year Ended December 31, Mortgage Servicing Rights
Balance at January 1, 2018	$—
Acquired MSRs	590
Amount capitalized	73
Change in unpaid principal balance during the period [1]	(32)
Change in fair value during the period [2]	(31)
Balance at December 31, 2018	$600

(1) Represents changes in value of the MSRs due to i) passage of time including the impact from both regularly scheduled loan principal payments and partial paydowns, and ii) loans that paid off during the period.
(2) Represents changes in value primarily due to market driven changes in interest rates and prepayment speeds.

Nonrecurring Fair Value Measurements
Fair value is also used on a nonrecurring basis to evaluate certain assets for impairment or for disclosure purposes. Examples of nonrecurring uses of fair value include MSRs accounted for by the amortization method and loan impairments for certain loans and leases.

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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.

Mortgage Servicing Rights — Amortization Method

MSRs do not trade in an active market with readily observable prices. MSRs are classified as Level 3 since the valuation methodology utilizes significant unobservable inputs. The fair value was calculated using a discounted cash flow model, which used assumptions, including weighted-average life, weighted-average constant prepayment rate and weighted-average discount rate. Refer to Note 8 “Mortgage Banking” for more information.

Foreclosed assets

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

Leased assets

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

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

	Year Ended December 31,		
(in millions)	2018	2017	2016
Impaired collateral-dependent loans	($13)	($35)	($33)
MSRs	3	(2)	(4)
Foreclosed assets	(2)	(3)	(3)
Leased assets	(7)	(15)	11

The following table presents assets and liabilities measured at fair value on a nonrecurring basis:

	December 31, 2018				December 31, 2017			
(in millions)	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Impaired collateral-dependent loans	$338	$—	$338	$—	$393	$—	$393	$—
MSRs	243	—	—	243	218	—	—	218
Foreclosed assets	29	—	29	—	31	—	31	—
Leased assets	92	—	92	—	112	—	112	—

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Disclosures about Fair Value of Financial Instruments

The following table presents the estimated fair value for financial instruments not recorded at fair value in the Consolidated Financial Statements. The carrying amounts are recorded in the Consolidated Balance Sheets under the indicated captions:

	December 31, 2018							
	Total		Level 1		Level 2		Level 3	
(in millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:								
Securities held to maturity	$4,165	$4,041	$—	$—	$4,165	$4,041	$—	$—
Equity securities, at cost	834	834	—	—	834	834	—	—
Other loans held for sale	101	101	—	—	—	—	101	101
Loans and leases	116,660	116,627	—	—	338	338	116,322	116,289
Financial Liabilities:								
Deposits	119,575	119,503	—	—	119,575	119,503	—	—
Federal funds purchased and securities sold under agreements to repurchase	1,156	1,156	—	—	1,156	1,156	—	—
Other short-term borrowed funds	1,653	1,653	—	—	1,653	1,653	—	—
Long-term borrowed funds	14,433	14,390	—	—	14,433	14,390	—	—

	December 31, 2017							
	Total		Level 1		Level 2		Level 3	
(in millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:								
Securities held to maturity	$4,685	$4,668	$—	$—	$4,685	$4,668	$—	$—
Equity securities, at cost	722	722	—	—	722	722	—	—
Other loans held for sale	221	221	—	—	—	—	221	221
Loans and leases	110,617	111,168	—	—	393	393	110,224	110,775
Financial Liabilities:								
Deposits	115,089	115,039	—	—	115,089	115,039	—	—
Federal funds purchased and securities sold under agreements to repurchase	815	815	—	—	815	815	—	—
Other short-term borrowed funds	1,856	1,856	—	—	1,856	1,856	—	—
Long-term borrowed funds	11,765	11,891	—	—	11,765	11,891	—	—

NOTE 20 - NONINTEREST INCOME

The following table presents noninterest income, segregated between revenue from contracts with customers and revenue from other sources:

(in millions)	Year Ended December 31, 2018
Revenue from contracts with customers	$1,119
Revenue from other sources	477

Noninterest income	$1,596

Revenues from Contracts with Customers

Citizens recognizes revenue from contracts with customers in the amount of consideration it expects to receive upon the transfer of control of a good or service. The timing of recognition is dependent on whether the Company satisfies a performance obligation by transferring control of the product or service to a customer over

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time or at a point in time. Judgments are made in the recognition of income including the timing of satisfaction of performance obligations and determination of the transaction price.
The following table presents the components of revenue from contracts with customers disaggregated by revenue stream and business operating segment:

	Year Ended December 31, 2018		
(in millions)	Consumer Banking	Commercial Banking	Consolidated [1]
Service charges and fees	$408	$105	$513
Card fees	207	37	244
Capital markets fees	—	181	181
Trust and investment services fees	171	—	171
Other banking fees	—	10	10
Total revenue from contracts with customers	$786	$333	$1,119

(1) There is no revenue from contracts with customers included in Other non-segment operations.
Citizens does not have any material contract assets, liabilities, or other receivables recorded on its Consolidated Balance Sheets related to revenues from contracts with customers as of December 31, 2018. Citizens has elected the practical expedient to exclude disclosure of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognized revenue at the amount to which the Company has the right to invoice for services performed. A description of the above components of revenue from contracts with customers is presented below:

Service Charges and Fees

Service charges and fees include fees earned from deposit products in lieu of compensating balances, service charges for transactions performed upon depositors' request, as well as fees earned from performing cash management activities. Service charges on deposit products are recognized over the period in which the related service is provided, typically monthly. Service fees are recognized at a point in time upon completion of the requested service transaction. Fees on cash management products are recognized over time (typically monthly) as services are provided.

Card Fees

Card fees include interchange income from credit and debit card transactions and are recognized at a point in time upon settlement by the association network. Interchange rates are generally set by the association network based on purchase volume and other factors. Other card-related fees are recognized at a point in time upon completion of the transaction. Costs related to card rewards programs are recognized in current earnings as the rewards are earned by the customer and are presented as a reduction to card fees on the Consolidated Statements of Operations.

Capital Markets Fees

Capital markets fees include fees received from leading or participating in loan syndications, underwriting services and advisory fees. Loan syndication and underwriting fees are recognized as revenue at a point in time when the Company has rendered all services to, and is entitled to collect the fee from, the borrower or the issuer, and there are no other contingencies associated with the fee. Underwriting expenses passed through from the lead underwriter are recognized within other operating expense on the Consolidated Statements of Operations. Advisory fees for merger and acquisitions are recognized over time, while valuation services and fairness opinions are recognized at a point in time upon completion of the advisory service.

Trust and Investment Services Fees

Trust and investment services fees include fees from investment management services and brokerage services. Fees from investment management services are based on asset market values and are recognized over the period in which the related service is provided. Brokerage services include custody fees, commission income, trailing commissions and other investment securities. Custody fees are recognized on a monthly basis for customers that are assessed custody fees. Commission income is recognized at a point in time on trade date. Trailing commissions such as 12b-1 fees, insurance renewal income, and income based on asset or investment levels in future periods are recognized at a point in time when the asset balance is known, or the renewal occurs and the income is no longer constrained. For the year ended December 31, 2018, the Company recognized trailing commissions of $16 million, related to services provided in previous reporting periods. Fees from other investment services are recognized at a point in time upon completion of the service.

Other Banking Fees

Other banking fees include fees for various transactional banking activities such as letter of credit fees, foreign wire transfers and other transactional services. These fees are recognized in a manner that reflects the timing of when transactions occur and as services are provided.

Revenue from Other Sources

Letter of Credit and Loan Fees

Letter of credit and loan fees primarily includes fees received related to letter of credit agreements as well as loan fees received from lending activities that are not deferrable. These fees are generally recognized upon execution of the contract.

Foreign Exchange and Interest Rate Products

Foreign exchange and interest rate products primarily includes the fees received from foreign exchange and interest rate derivative contracts executed with customers to meet their hedging and financing needs. These fees are generally recognized upon execution of the contracts. Foreign exchange and interest rate products also include the mark-to-market gains and losses recognized on (i) these customer contracts and (ii) offsetting derivative contracts that are executed with external counterparties to hedge the foreign exchange and interest rate risk associated with the customer contracts.

Mortgage Banking Fees

Mortgage banking fees primarily include gains on sales of residential mortgages originated with the intent to sell and servicing fees on mortgages where the Company is the servicer. Mortgage banking fees also include valuation adjustments for mortgage loans held-for-sale that are measured at the lower of cost or fair value, as well as mortgage loans originated with the intent to sell that are measured at fair value under the fair value option. Changes in the value of MSRs are reported in mortgage fees and related income. For a further discussion of MSRs, see Note 8 “Mortgage Banking.” Net interest income from mortgage loans is recorded in interest income.

Other Income

Bank-owned life insurance is stated at its cash surrender value. Citizens is the beneficiary of the life insurance policies on current and former officers and selected employees of the Company. Net changes in the carrying amount of the cash surrender value are an adjustment of premiums paid in determining the expense or income to be recognized under the life insurance policy for the period.

	Year Ended December 31,		
(in millions)	2018	2017	2016
Bank-owned life insurance	$56	$54	$54

NOTE 21 - OTHER OPERATING EXPENSE

The following table presents the details of other operating expense:

	Year Ended December 31,		
(in millions)	2018	2017	2016
Deposit insurance	$104	$137	$120
Promotional expense	129	105	98
Settlements and operating losses	47	54	62
Other	215	246	241
Other operating expense	$495	$542	$521

NOTE 22 - INCOME TAXES

Citizens uses an asset and liability (balance sheet) approach for financial accounting and reporting of income taxes. This results in two components of income tax expense: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the current period. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. These gross deferred tax assets and liabilities represent

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decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences in the bases of assets and liabilities, as measured by tax laws, and their bases, as reported in the Consolidated Financial Statements.

Citizens also assesses the probability that the positions taken, or expected to be taken, in its income tax returns will be sustained by taxing authorities. A “more likely than not” (more than 50 percent) recognition threshold must be met before a tax benefit can be recognized. Tax positions that are more likely than not to be sustained are reflected in the Company’s Consolidated Financial Statements.

Total income tax expense is presented below:

	Year Ended December 31,		
(in millions)	2018	2017	2016
Income tax expense	$462	$260	$489
Tax effect of changes in OCI	(96)	(7)	(168)
Total comprehensive income tax expense	$366	$253	$321

Components of income tax expense are presented below:

(in millions)	Current	Deferred	Total
Year Ended December 31, 2018			
U.S. federal	$271	$90	$361
State and local	94	7	101
Total	$365	$97	$462
Year Ended December 31, 2017			
U.S. federal	$376	($142)	$234
State and local	20	6	26
Total	$396	($136)	$260
Year Ended December 31, 2016			
U.S. federal	$292	$159	$451
State and local	44	(6)	38
Total	$336	$153	$489

The effective income tax rate differed from the U.S. federal income tax rate of 21% for the year ended December 31, 2018, and 35% for the years ended December 31, 2017 and 2016, as presented below:

	Year Ended December 31,					
	2018		2017		2016	
(in millions, except ratio data)	Amount	Rate	Amount	Rate	Amount	Rate
U.S. Federal income tax expense and tax rate	$459	21.0 %	$669	35.0 %	$537	35.0 %
Increase (decrease) resulting from:						
Federal rate change	(34)	(1.6)	(331)	(17.3)	—	—
State and local income taxes (net of federal benefit)	89	4.1	46	2.4	38	2.5
Bank-owned life insurance	(12)	(0.5)	(19)	(1.0)	(19)	(1.2)
Tax-exempt interest	(15)	(0.7)	(21)	(1.1)	(19)	(1.3)
Tax advantaged investments (including related credits)	(44)	(2.0)	(51)	(2.7)	(31)	(2.0)
Other tax credits	(8)	(0.4)	(3)	(0.1)	(14)	(0.9)
Adjustments for uncertain tax positions	1	0.1	(23)	(1.2)	—	—
Non-deductible FDIC premiums	21	1.0	—	—	—	—
Other	5	0.2	(7)	(0.4)	(3)	(0.2)
Total income tax expense and tax rate	$462	21.2 %	$260	13.6 %	$489	31.9 %

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	December 31,	
(in millions)	2018	2017
Deferred tax assets:		
Other comprehensive income	$366	$271
Allowance for credit losses	308	310
State net operating loss carryforwards	90	88
Accrued expenses not currently deductible	36	40
Investment and other tax credit carryforwards	74	65
Fair value adjustments	28	27
Total deferred tax assets	902	801
Valuation allowance	(110)	(105)
Deferred tax assets, net of valuation allowance	792	696
Deferred tax liabilities:		
Leasing transactions	527	525
Amortization of intangibles	364	352
Depreciation	195	182
Pension and other employee compensation plans	127	110
Partnerships	51	37
Deferred Income	50	27
MSRs	51	34
Total deferred tax liabilities	1,365	1,267
Net deferred tax liability	$573	$571

Deferred tax assets are recognized for net operating loss carryforwards and tax credit carryforwards. Valuation allowances are recorded as necessary to reduce deferred tax assets to the amounts that management concludes are more likely than not to be realized.

At December 31, 2018, the Company had state tax net operating loss carryforwards of $1.4 billion. Limitations on the ability to realize these carryforwards are reflected in the associated valuation allowance.

At December 31, 2018, the Company had a valuation allowance of $110 million against various deferred tax assets related to state net operating losses and state tax credits, as it is management’s current assessment that it is more likely than not that the Company will not recognize a portion of the deferred tax assets related to these items. The valuation allowance increased $5 million during the year ended December 31, 2018.

Effective with the fiscal year ended September 30, 1997, the reserve method for bad debts was no longer permitted for tax purposes. The repeal of the reserve method required the recapture of the reserve balance in excess of certain base year reserve amounts attributable to years ended prior to 1988. At December 31, 2018, the Company’s base year loan loss reserves attributable to years ended prior to 1988, for which no deferred income taxes have been provided, was $557 million. This base year reserve may become taxable if certain distributions are made with respect to the stock of the Company or if the Company ceases to qualify as a bank for tax purposes. No actions are planned that would cause this reserve to become wholly or partially taxable.

Citizens files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal or state and local income tax examinations by major tax authorities for years before 2015.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits is presented below:

	December 31,		
(in millions)	2018	2017	2016
Balance at the beginning of the year	$5	$42	$62
Gross increase for tax positions related to current year	3	—	—
Gross decrease for tax positions related to prior years	—	(27)	(19)
Gross increase for tax positions related to prior years	—	—	1
Decreases for tax positions as a result of the lapse of the statutes of limitations	—	(1)	(2)
Decreases for tax positions related to settlements with taxing authorities	—	(9)	—
Balance at end of year	$8	$5	$42

Tax positions are measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The difference between the benefit recognized for a position and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit.

Included in the total amount of unrecognized tax benefits at December 31, 2018, are potential benefits of $6 million that, if recognized, would impact the effective tax rate.

Citizens classifies interest and penalties related to unrecognized tax benefits as a component of income taxes. There was no interest expense accrued as of December 31, 2018. The Company released $8 million and accrued $8 million of interest expense for the years ended December 31, 2017 and 2016, respectively. Citizens had approximately $2 million, $1 million, and $22 million accrued for the payment of interest at December 31, 2018, 2017, and 2016, respectively. There were no amounts accrued for penalties as of December 31, 2018, 2017, and 2016, and there were no penalties recognized during the years ended December 31, 2018, 2017, and 2016.

NOTE 23 - EARNINGS PER SHARE

Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each period. Net income available to common stockholders represents net income after preferred stock dividends, accretion of the discount on preferred stock issuances, and gains or losses from any repurchases of preferred stock. Diluted EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each period, plus potential dilutive shares such as share-based payment awards and warrants using the treasury stock method.

	Year Ended December 31,		
(in millions, except share and per-share data)	2018	2017	2016
Numerator (basic and diluted):			
Net income	$1,721	$1,652	$1,045
Less: Preferred stock dividends	29	14	14
Net income available to common stockholders	$1,692	$1,638	$1,031
Denominator:			
Weighted-average common shares outstanding - basic	478,822,072	502,157,440	522,093,545
Dilutive common shares: share-based awards	1,608,669	1,527,651	1,837,173
Weighted-average common shares outstanding - diluted	480,430,741	503,685,091	523,930,718
Earnings per common share:			
Basic	$3.54	$3.26	$1.97
Diluted	3.52	3.25	1.97

Potential dilutive common shares are excluded from the computation of diluted EPS in the periods where the effect would be antidilutive. The diluted EPS computation for the year ended December 31, 2018 and 2016 did not have any antidilutive shares. The diluted EPS computation for the year ended December 31, 2017 excluded 533 average share-based awards because their inclusion would have been antidilutive.

NOTE 24 - REGULATORY MATTERS

As a bank holding company, the Company is subject to regulation and supervision by the FRB. As of December 31, 2018, the Company's primary subsidiaries were CBNA, a national banking association whose primary federal

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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. On January 2, 2019, the Company consolidated its banking subsidiaries via a merger of CBPA into CBNA in order to streamline governance and enterprise risk management, improve CBNA's risk profile and gain operational efficiencies. CBNA is now the Company's primary subsidiary and sole banking subsidiary.

Under the U.S. Basel III capital framework, the Company and CBNA must meet specific minimum requirements for the following ratios: common equity tier 1 capital, tier 1 capital, total capital, and tier 1 leverage. In addition, the Company must not be subject to a written agreement, order or capital directive with any of its regulators. Failure to meet minimum capital requirements can result in the initiation of certain actions that, if undertaken, could have a material effect on the Company's Consolidated Financial Statements.

The following table presents the Company's capital and capital ratios under U.S. Basel III Standardized rules. The Company has declared itself as an "AOCI opt-out" institution, which means the Company is not required to recognize in regulatory capital the impacts of net unrealized gains and losses included within AOCI for securities that are available for sale or held to maturity, accumulated net gains and losses on cash-flow hedges and certain defined benefit pension plan assets.

	Actual			Minimum Capital Adequacy		
(in millions, except ratio data)	Amount	Ratio		Amount	Ratio[5]	
As of December 31, 2018						
Common equity tier 1 capital [1]	$14,485	10.6		$8,683	6.375	%
Tier 1 capital [2]	15,325	11.3		10,726	7.875	
Total capital [3]	18,157	13.3		13,450	9.875	
Tier 1 leverage [4]	15,325	10.0		6,121	4.000	
As of December 31, 2017						
Common equity tier 1 capital [1]	$14,309	11.2	%	$7,342	5.750	%
Tier 1 capital [2]	14,556	11.4		9,258	7.250	
Total capital [3]	17,781	13.9		11,812	9.250	
Tier 1 leverage [4]	14,556	10.0		5,824	4.000	

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

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

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

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

[5] "Minimum Capital ratio" includes capital conservation buffer of 1.875% for 2018 and 1.25% for 2017; N/A to Tier 1 leverage.

Under the FRB's Capital Plan Rule, the Company may only make capital distributions, including payment of dividends and share repurchases, in accordance with a capital plan that has been reviewed by the FRB with no objection or as otherwise authorized by the FRB.

On April 5, 2018, the Company submitted its 2018 Capital Plan, Capital Policy and annual stress test results to the FRB as part of the 2018 CCAR process. On June 28, 2018, the FRB did not object to the Company's 2018 Capital Plan including its proposed capital actions for the period beginning July 1, 2018 and ending June 30, 2019. The Company's

2018 Capital Plan includes quarterly common dividends of $0.27 per share in third and fourth quarter 2018, increasing to $0.32 per share in first and second quarter 2019, and common share repurchases of up to $1.02 billion through the second quarter of 2019. The timing and exact amount of future dividends and share repurchases will depend on various factors, including the Company's capital position, financial performance and market conditions. All future capital distributions are subject to consideration and approval by the Board of Directors prior to execution.

For the year ended December 31, 2018, the Company redeemed $333 million of its 5.158% fixed-to-floating callable subordinated debt due 2023, issued Series B and Series C preferred stock for $296 million and $297 million, respectively and repurchased outstanding common shares for $1.025 billion compared to $820 million for the year ended December 31, 2017.

For the year ended December 31, 2018, the Company declared and paid common dividends of $471 million, declared and paid semi-annual Series A preferred dividends of $14 million, and declared semi-annual Series B and quarterly Series C preferred dividends of $11 million and $4 million, respectively. This compared to $322 million of common dividends declared and paid and $14 million of semi-annual Series A preferred dividend declared and paid for the year ended December 31, 2017.

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

NOTE 25 - BUSINESS OPERATING SEGMENTS

Citizens is managed by its Chief Executive Officer on a segment basis. The Company's two business operating segments are Consumer Banking and Commercial Banking. The business segments are determined based on the products and services provided, or the type of customer served. Each segment has one or more segment heads who report directly to the Chief Executive Officer. The Chief Executive Officer has final authority over resource allocation decisions and performance assessment. The business segments reflect this management structure and the manner in which financial information is currently evaluated by the Chief Executive Officer.

Reportable Segments

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

Consumer Banking

The Consumer Banking segment focuses on retail customers and small businesses with annual revenues of up to $25 million. It offers traditional banking products and services, including checking, savings, home loans, education loans, credit cards, business loans, and unsecured product finance and personal loans in addition to financial management services. It also operates an indirect auto financing business, providing financing for both new and used vehicles through auto dealerships. The segment's distribution channels include a branch network, ATMs and a work force of experienced specialists ranging from financial consultants, mortgage loan officers and business banking officers to private bankers. The Company's Consumer Banking value proposition is based on providing simple, easy to understand product offerings and a convenient banking experience with a more personalized approach.

Commercial Banking

The Commercial Banking segment primarily targets companies with annual revenues from $25 million to $2.5 billion and provides a full complement of financial products and solutions, including loans, leases, trade financing, deposits, cash management, commercial cards, foreign exchange, interest rate risk management, corporate finance and capital markets advisory capabilities. It focuses on middle-market companies, large corporations and institutions and has dedicated teams with industry expertise in government banking, not-for-profit, healthcare, technology, professionals, oil and gas, asset finance, franchise finance, asset-based lending, commercial real estate, private equity and sponsor finance. While the segment's business development efforts are predominantly focused in the Company's footprint, some of its specialized industry businesses also operate selectively on a national basis (such as healthcare, asset finance and franchise finance). A key component of Commercial Banking's growth strategy is to bring ideas to clients that help their businesses thrive, and in doing so, expand the loan portfolio and ancillary product sales.

Non-segment Operations

Other

Non-segment operations are classified as Other, which includes corporate functions, the Treasury function, the securities portfolio, wholesale funding activities, intangible assets, community development, non-core assets (including legacy Royal Bank of Scotland Group plc aircraft loans and leases placed in runoff in the third quarter of

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2016), and other unallocated assets, liabilities, capital, revenues, provision for credit losses, and expenses including income tax expense. In addition to non-segment operations, Other includes goodwill and any associated goodwill impairment charges. For impairment testing purposes, the Company allocates goodwill to its Consumer Banking and Commercial Banking reporting units.

	As of and for the Year Ended December 31, 2018			
(in millions)	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	$3,064	$1,497	($29)	$4,532
Noninterest income	973	545	78	1,596
Total revenue	4,037	2,042	49	6,128
Noninterest expense	2,723	813	83	3,619
Profit before provision for credit losses	1,314	1,229	(34)	2,509
Provision for credit losses	289	26	11	326
Income (loss) before income tax expense (benefit)	1,025	1,203	(45)	2,183
Income tax expense (benefit)	258	276	(72)	462
Net income	$767	$927	$27	$1,721
Total average assets	$62,444	$52,362	$39,747	$154,553

	As of and for the Year Ended December 31, 2017			
(in millions)	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	$2,651	$1,411	$111	$4,173
Noninterest income	905	538	91	1,534
Total revenue	3,556	1,949	202	5,707
Noninterest expense	2,593	772	109	3,474
Profit before provision for credit losses	963	1,177	93	2,233
Provision for credit losses	265	19	37	321
Income before income tax expense (benefit)	698	1,158	56	1,912
Income tax expense (benefit)	246	384	(370)	260
Net income	$452	$774	$426	$1,652
Total average assets	$59,714	$49,747	$40,492	$149,953

	As of and for the Year Ended December 31, 2016			
(in millions)	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	$2,443	$1,288	$27	$3,758
Noninterest income	883	466	148	1,497
Total revenue	3,326	1,754	175	5,255
Noninterest expense	2,547	741	64	3,352
Profit before provision for credit losses	779	1,013	111	1,903
Provision for credit losses	243	47	79	369
Income before income tax expense (benefit)	536	966	32	1,534
Income tax expense (benefit)	191	335	(37)	489
Net income	$345	$631	$69	$1,045
Total average assets	$56,388	$47,159	$39,636	$143,183

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Management accounting practices utilized by the Company as the basis of presentation for segment results include the following:

FTP adjustments

Citizens utilizes an FTP system to eliminate the effect of interest rate risk from the segments' net interest income because such risk is centrally managed within the Treasury function. The FTP system credits (or charges) the segments with the economic value of the funds created (or used) by the segments. The FTP system provides a funds credit for sources of funds and a funds charge for the use of funds by each segment. The sum of the interest income/expense and FTP charges/credits for each segment is its designated net interest income. The variance between the Company's cumulative FTP charges and cumulative FTP credits is offset in Other. Citizens periodically evaluates and refines its methodologies used to measure financial performance of its business operating segments. In the first quarter of 2018, Citizens enhanced its assumptions for the liquidity and deposit component within its FTP methodology. The enhancement largely provides increased credit for the stability of deposit composition, and an increased charge for unused commitments under lending arrangements. Prior periods have not been adjusted for this change.

Provision for credit losses allocations

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

Income tax allocations

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

Expense allocations

Noninterest expenses incurred by centrally managed operations or business lines that directly support another business line's operations are charged to the applicable business line based on its utilization of those services.

Goodwill

For impairment testing purposes, the Company allocates goodwill to its Consumer Banking and Commercial Banking reporting units. For management reporting purposes, the Company presents the goodwill balance (and any related impairment charges) in Other.

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

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NOTE 26 - PARENT COMPANY FINANCIALS
Condensed Statements of Operations

	Year Ended December 31,		
(in millions)	2018	2017	2016
OPERATING INCOME:			
Income from consolidated subsidiaries and excluding equity in undistributed earnings:			
Dividends from banking subsidiaries	$1,650	$1,055	$555
Interest	46	43	53
Management and service fees	22	31	26
Income from nonbank subsidiaries and excluding equity in undistributed earnings:			
Dividends from nonbank subsidiaries	5	4	—
Interest	2	1	—
Equity securities gains	—	1	3
All other operating income	1	1	7
Total operating income	1,726	1,136	644
OPERATING EXPENSE:			
Salaries and employee benefits	25	40	37
Interest expense	89	97	99
All other expenses	23	22	15
Total operating expense	137	159	151
Income before taxes and undistributed income	1,589	977	493
Income taxes	(13)	(10)	(26)
Income before undistributed earnings of subsidiaries	1,602	987	519
Equity in undistributed earnings of subsidiaries:			
Bank	109	655	522
Nonbank	10	10	4
Net income	$1,721	$1,652	$1,045
Other comprehensive income (loss), net of income taxes:			
Net pension plan activity arising during the period	$5	($1)	($2)
Net unrealized derivative instrument gains (losses) arising during the period	2	1	(8)
Other comprehensive income (loss) activity of the Parent Company, net of income taxes	7	—	(10)
Other comprehensive loss activity of Bank subsidiaries, net of income taxes	(283)	(7)	(271)
Total other comprehensive loss, net of income taxes	(276)	(7)	(281)
Total comprehensive income	$1,445	$1,645	$764

In accordance with federal and state banking regulations, dividends paid by the Company’s banking subsidiaries to the Company are generally limited to the retained earnings of the respective banking subsidiaries unless specifically approved by the appropriate bank regulator. Citizens declared and paid total common stock dividends of $471 million, $322 million and $241 million for the years ended December 31, 2018, 2017 and 2016, respectively. Citizens also declared and paid preferred stock dividends of $14 million for the years ended December 31, 2018, 2017 and 2016.

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Condensed Balance Sheets

(in millions)	December 31, 2018	December 31, 2017
ASSETS:		
Cash and due from banks	$961	$563
Loans and advances to:		
Bank subsidiaries	1,158	1,160
Nonbank subsidiaries	70	70
Investments in subsidiaries:		
Bank subsidiaries	20,590	20,765
Nonbank subsidiaries	83	73
Other assets	117	125
TOTAL ASSETS	$22,979	$22,756
LIABILITIES:		
Long-term borrowed funds due to:		
Unaffiliated companies	$1,987	$2,320
Other liabilities	175	166
TOTAL LIABILITIES	2,162	2,486
TOTAL STOCKHOLDERS' EQUITY	20,817	20,270
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$22,979	$22,756

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Cash Flow Statements

	Year Ended December 31,		
(in millions)	2018	2017	2016
OPERATING ACTIVITIES			
Net income	$1,721	$1,652	$1,045
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	17	(11)	5
Gain on sales of assets	—	(1)	(3)
Equity in undistributed earnings of subsidiaries	(120)	(665)	(526)
Increase (decrease) in other liabilities	11	99	(19)
(Increase) decrease in other assets	(7)	5	35
Other operating, net	40	(1)	(4)
Total adjustments	(59)	(574)	(512)
Net cash provided by operating activities	1,662	1,078	533
INVESTING ACTIVITIES			
Investments in and advances to subsidiaries	—	(230)	(40)
Repayment of investments in and advances to subsidiaries	—	167	588
Other investing, net	(1)	(1)	(2)
Net cash (used) provided by investing activities	(1)	(64)	546
FINANCING ACTIVITIES			
Proceeds from issuance of long-term borrowed funds	—	—	349
Repayments of long-term borrowed funds	(333)	—	(625)
Proceeds from issuance of common stock	—	34	22
Treasury stock purchased	(1,025)	(820)	(430)
Net proceeds from issuance of preferred stock	593	—	—
Dividends declared and paid to common stockholders	(471)	(322)	(241)
Dividends declared and paid to preferred stockholders	(14)	(14)	(14)
Other financing, net	(13)	—	—
Net cash used by financing activities	(1,263)	(1,122)	(939)
Increase (decrease) in cash and due from banks	398	(108)	140
Cash and due from banks at beginning of year	563	671	531
Cash and due from banks at end of year	$961	$563	$671

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. The design of any disclosure controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. In accordance with Rule 13a-15(b) of the Exchange Act, as of the end of the period covered by this Annual Report, an evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures, as of the end of the period covered by this Annual Report, were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Annual Report on Form 10-K that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting, the Report of the Independent Registered Public Accounting Firm on the Consolidated Financial Statements, and the Report of the Independent Registered Public Accounting Firm on Internal Control over Financial Reporting are included in Item 8 — Financial Statements and Supplementary Data, included in this Report.

ITEM 9B. OTHER INFORMATION

None.

PART III

We refer in Part III of this Report to relevant sections of our 2019 Proxy Statement for the 2019 annual meeting of shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the close of our 2018 fiscal year. Portions of our 2019 Proxy Statement, including the sections we refer to in this Report, are incorporated by reference into this Report.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item is presented under the captions "Corporate Governance"— "Election of Directors" and "Board Governance and Oversight," and "Section 16(a) Beneficial Ownership Reporting Compliance" of our 2019 Proxy Statement, which is incorporated by reference into this item.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is presented under the captions "Compensation Matters" — "Compensation Discussion and Analysis," "Compensation Committee Report," "Executive Compensation," "Termination of Employment and Change of Control," "Director Compensation," "Compensation Risk Assessment," and "CEO Pay Ratio" of our 2019 Proxy Statement, which is incorporated by reference into this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item is presented under the captions "Compensation Matters" — "Equity Compensation Plans" and "Security Ownership of Certain Beneficial Owners and Management" of our 2019 Proxy Statement, which is incorporated by reference into this item. Additional information relating to compensation plans under which our equity securities are authorized for issuance is presented in Note 17 "Share-Based Compensation" to our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this Report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item is set forth under the captions "Corporate Governance" — "Board Governance and Oversight — Director Independence" and "Related Person Transactions" of our 2019 Proxy Statement, which is incorporated by reference into this item.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is presented under the captions "Audit Matters" — "Pre-approval of Independent Auditor Services" and "Independent Registered Public Accounting Firm Fees" of our 2019 Proxy Statement, which is incorporated by reference into this item.

CITIZENS FINANCIAL GROUP, INC.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements of Citizens Financial Group, Inc., included in this Report:

- Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements;
- Consolidated Balance Sheets as of December 31, 2018 and 2017;
- Consolidated Statements of Operations for the Years Ended December 31, 2018, 2017 and 2016;
- Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2018, 2017 and 2016;
- Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2018, 2017 and 2016;
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016; and
- Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

All financial statement schedules for the Registrant have been included in the audited Consolidated Financial Statements or the related footnotes in Part II, Item 8 — Financial Statements and Supplementary Data, included in this Report, or are either inapplicable or not required.

(a)(3) Exhibits

3.1 Amended and Restated Certificate of Incorporation of the Registrant as in effect on the date hereof (incorporated herein by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q, filed May 8, 2015)

3.2 Certificate of Designations of the Registrant with respect to the Series B Preferred Stock, dated May 22, 2018, filed with the Secretary of State of the State of Delaware and effective May 22, 2018 (incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed May 24, 2018)

3.3 Certificate of Designations of the Registrant with respect to the Series C Preferred Stock, dated October 24, 2018, filed with the Secretary of State of the State of Delaware and effective October 24, 2018 (incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed October 25, 2018)

3.4 Certificate of Designations of the Registrant with respect to the Series D Preferred Stock, dated January 23, 2019, filed with the Secretary of State of the State of Delaware and effective January 23, 2019 (incorporated herein by reference to Exhibit 3.4 of the Registration Statement on Form 8-A, filed January 29, 2019)

3.5 Bylaws of the Registrant (as amended and restated on October 20, 2016) (incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed October 24, 2016)

4.1 Senior Debt Indenture between the Company and The Bank of New York Mellon dated as of October 28, 2015 (incorporated herein by reference to Exhibit 4.1 of Registration Statement on Form S-3, filed October 29, 2015)

4.2 Subordinated Indenture between the Company and The Bank of New York Mellon dated as of September 28, 2012 (incorporated herein by reference to Exhibit 4.2 of the Registration Statement on Form S-1, filed July 28, 2015)

4.3 Form of Certificate representing the Series A Preferred Stock (incorporated herein by reference to Exhibit 4.2 of the Current Report on Form 8-K, filed April 6, 2015)

4.4 Form of Certificate representing the Series B Preferred Stock (incorporated herein by reference to Exhibit 4.2 of the Current Report on Form 8-K, filed May 24, 2018)

CITIZENS FINANCIAL GROUP, INC.

4.5 Certificate of Designations of the Registrant with respect to the Series D Preferred Stock, dated January 23, 2019, filed with the Secretary of State of the State of Delaware and effective January 23, 2019 (incorporated herein by reference to Exhibit 3.4 of the Registration Statement on Form 8-A, filed January 29, 2019)

4.6 Deposit Agreement dated January 29, 2019, between the Corporation, Computershare Inc., Computershare Trust Company, N.A., and the holders from time to time of the Depositary Receipts representing interests in the Series D preferred stock (incorporated herein by reference to Exhibit 4.1 to the Registration Statement on Form 8-A, filed January 29, 2019)

4.7 Form of Depository Receipt (incorporated herein by reference as Exhibit A to Exhibit 4.2 of the Current Report on Form 8-K, filed January 29, 2019)

4.8 Agreement to furnish to the Securities and Exchange Commission upon request a copy of instruments defining the rights of holders of certain long-term debt of the registrant and consolidated subsidiaries*

10.1 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.11 of the Quarterly Report on Form 10-Q, filed November 14, 2014)†

10.2 Amended and Restated Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan as of June 23, 2016 (incorporated herein by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q, filed August 5, 2016)†

10.3 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Agreement for 2015 Awards (incorporated herein by reference to Exhibit 10.10 of the Annual Report on Form 10-K, filed March 3, 2015)†

10.4 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Award Agreement for 2016 Awards (incorporated herein by reference to Exhibit 10.11 of the Annual Report on Form 10-K, filed February 26, 2016)†

10.5 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Award Agreement for 2017 Award (incorporated herein by reference to Exhibit 10.10 of the Annual Report on Form 10-K, Filed February 24, 2017)†

10.6 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Award Agreement for 2018 Award (incorporated herein by reference to Exhibit 10.11 of the Annual Report on Form 10-K, filed February 22, 2018)†

10.7 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Award Agreement†*

10.8 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Bruce Van Saun Relating to Annual Awards (incorporated herein by reference to Exhibit 10.11 of the Annual Report on Form 10-K, Filed February 24, 2017)†

10.9 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Share Unit Award Agreement for 2015 Awards (incorporated herein by reference to Exhibit 10.11 of the Annual Report on Form 10-K, filed March 3, 2015)†

10.10 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Share Award Agreement for 2016 Awards (incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q, filed May 9, 2016)†

10.11 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Stock Award Agreement for 2017 Awards (incorporated herein by reference to Exhibit 10.14 of the Annual Report on Form 10-K, Filed February 24, 2017)†

CITIZENS FINANCIAL GROUP, INC.

10.12 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Amendment to Form of Performance Stock Award Agreement (incorporated herein by reference to Exhibit 10.3 of the Annual Report on Form 10-Q, Filed August 3, 2017)†

10.13 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Stock Award Agreement for 2018 Awards (incorporated herein by reference to Exhibit 10.17 of the Annual Report on Form 10-K, filed February 22, 2018)†

10.14 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Stock Unit Award Agreement†*

10.15 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Performance Stock Unit Award Agreement for Bruce Van Saun Relating to Annual Awards (incorporated herein by reference to Exhibit 10.15 of the Annual Report on Form 10-K, Filed February 24, 2017)†

10.16 Citizens Financial Group, Inc. Amendment to Performance Share Unit Award Agreement/Restricted Stock Unit Agreement/Deferred Cash Agreement Terms and Conditions (incorporated herein by reference to Exhibit 10.14 of the Annual Report on Form 10-K, filed February 26, 2016)†

10.17 Citizens Financial Group, Inc. 2014 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 99.3 of the Registration Statement on Form S-8, filed September 26, 2014)†

10.18 Citizens Financial Group, Inc. Non-Employee Directors Compensation Policy original adopted as of September 29, 2014 and amended on June 25, 2015 (incorporated herein by reference to Exhibit 10.14 of Registration Statement on Form S-1, filed July 21, 2015)†

10.19 Citizens Financial Group, Inc. Non-Employee Directors Compensation Policy, as amended June 22, 2017, to be effective as of August 1, 2017 (incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed August 3, 2017)†

10.20 Citizens Financial Group, Inc. Non-Employee Directors Compensation Policy, Amended and Effective as of April 26, 2018 (incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed May 9, 2018)†

10.21 Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan (incorporated herein by reference to Exhibit 99.2 of the Registration Statement on Form S-8, filed September 26, 2014)†

10.22 Amended and Restated Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan as of June 23, 2016 (incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q, filed August 5, 2016)†

10.23 Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan Form of Restricted Stock Unit Award Agreement (incorporated herein by reference to Exhibit 10.19 of the Annual Report on Form 10-K, filed February 26, 2016)†

10.24 Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan Form of Restricted Stock Unit Award Agreement (incorporated herein by reference to Exhibit 10.2 of the Annual Report on Form 10-Q, Filed August 3, 2017)†

10.25 Amended and Restated Deferred Compensation Plan for Directors of Citizens Financial Group, Inc., effective January 1, 2009 (incorporated herein by reference to Exhibit 10.19 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014)†

10.26 Form of Indemnification Agreement (incorporated herein by reference to Exhibit 10.5 of Amendment No. 3 to Registration Statement on Form S-1, filed September 8, 2014)†

10.27 Amended and Restated CFG Voluntary Executive Deferred Compensation Plan, effective January 1, 2009 and amended and restated on September 1, 2014 (incorporated herein by reference to Exhibit 10.21 of the Annual Report on Form 10-K, filed March 3, 2015)†

CITIZENS FINANCIAL GROUP, INC.

10.28 Amended and Restated Citizens Financial Group, Inc. Deferred Compensation Plan, effective January 1, 2009 (incorporated herein by reference to Exhibit 10.20 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014)†

10.29 Citizens Financial Group, Inc. Form of Deferred Cash Award Agreement for 2015 Awards (incorporated herein by reference to Exhibit 10.23 of the Annual Report on Form 10-K, filed March 3, 2015)†

10.30 Citizens Financial Group, Inc. Form of Deferred Cash Award Agreement for 2016 Awards (incorporated herein by reference to Exhibit 10.28 of the Annual Report on Form 10-K, filed February 26, 2016)†

10.31 Citizens Financial Group, Inc. Form of Deferred Cash Award Agreement for 2017 and 2018 Awards (incorporated herein by reference to Exhibit 10.35 of the Annual Report on Form 10-K, filed February 22, 2018)†

10.32 Citizens Financial Group, Inc. Form of Deferred Cash Award Agreement†*

10.33 Citizens Financial Group, Inc. Executive Severance Practice (incorporated herein by reference to Exhibit 10.21 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014)†

10.34 Citizens Financial Group, Inc. Performance Formula and Incentive Plan (incorporated herein by reference to Exhibit 10.28 of Annual Report on Form 10-K, filed March 3, 2015)†

10.35 Amended and Restated Executive Employment Agreement, dated May 5, 2016, between the Registrant and Bruce Van Saun (incorporated herein by reference to Exhibit 10.5 of the Quarterly Report on Form S-1, filed May 9, 2016)†

10.36 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement between the Registrant and Bruce Van Saun relating to the May 2016 Grant (incorporated herein by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q filed May 9, 2016)†

10.37 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Performance Share Unit Award Agreement between the Registrant and Bruce Van Saun for the May 2016 Grant (incorporated herein by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q filed May 9, 2016)†

10.38 Executive Employment Agreement, dated March 23, 2015, between the Registrant and Donald H. McCree III and subsequent addendum dated August 2, 2017 (incorporated herein by reference to Exhibit 10.7 of the Quarterly Report on Form 10-Q, filed August 3, 2017)†

10.39 Offer Letter, dated May 23, 2008, as amended on August 6, 2014, between the Registrant and Brad Conner and subsequent addendums dated August 6, 2014 and August 2, 2017 (incorporated herein by reference to Exhibit 10.5 of the Quarterly Report on Form 10-Q, filed August 3, 2017)†

10.40 Executive Employment Agreement, dated July 1, 2014, between the Registrant and Stephen Gannon and subsequent addendum dated August 2, 2017 (incorporated herein by reference to Exhibit 10.6 of the Quarterly Report on Form 10-Q, filed August 3, 2017)†

10.41 Executive Employment Agreement, dated September 6, 2014, between the Registrant and Malcolm Griggs and subsequent addendum dated August 14, 2017†*

10.42 Executive Employment Agreement, dated June 18, 2018, between the Registrant and C. Jack Read (incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed August 6, 2018)†

10.43 Executive Employment Agreement, dated December 13, 2016, between the Registrant and John F. Woods and subsequent addendum dated August 2, 2017 (incorporated herein by reference to Exhibit 10.8 of the Quarterly Report on Form 10-Q, filed August 3, 2017)†

CITIZENS FINANCIAL GROUP, INC.

10.44 Supplemental Retirement Agreement, dated October 31, 1995, as amended, between Charter One Financial, Inc. and, Charles J. Koch (incorporated herein by reference to Exhibit 10.37 of Amendment No. 3 to Registration Statement on Form S-1, filed September 8, 2014)†

21.1 Subsidiaries of Registrant*

23.1 Consent of Independent Registered Public Accounting Firm*

24.1 Power of Attorney (contained herein on signature pages)

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

101 The following materials from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders’ Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements*

† Indicates management contract or compensatory plan or arrangement.
* Filed herewith.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on February 21, 2019.

CITIZENS FINANCIAL GROUP, INC.
(Registrant)

By: /s/ Bruce Van Saun

Name: Bruce Van Saun
Title: Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

CITIZENS FINANCIAL GROUP, INC.

SIGNATURES

KNOW ALL PERSONS BY THESE PRESENTS, that each of the undersigned, being a director or officer of Citizens Financial Group, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints Bruce Van Saun, John F. Woods, Stephen T. Gannon, and C. Jack Read, and each of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead in any and all capacities, to sign one or more Annual Reports for the Company's fiscal year ended December 31, 2018 on Form 10-K under the Securities Exchange Act of 1934, as amended, or such other form as any such attorney-in-fact may deem necessary or desirable, any amendments thereto, and all additional amendments thereto, each in such form as they or any one of them may approve, and to file the same with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done so that such Annual Report shall comply with the Securities Exchange Act of 1934, as amended, and the applicable Rules and Regulations adopted or issued pursuant thereto, as fully and to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitute or resubstitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ Bruce Van Saun Bruce Van Saun	Chairman of the Board and Chief Executive Officer (Principal Executive Officer and Director)	February 21, 2019
/s/ John F. Woods John F. Woods	Vice Chairman and Chief Financial Officer (Principal Financial Officer)	February 21, 2019
/s/ C. Jack Read C. Jack Read	Executive Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer)	February 21, 2019
/s/ Mark Casady Mark Casady	Director	February 21, 2019
/s/ Christine M. Cumming Christine M. Cumming	Director	February 21, 2019
/s/ Anthony Di Iorio Anthony Di Iorio	Director	February 21, 2019
/s/ William P. Hankowsky William P. Hankowsky	Director	February 21, 2019
/s/ Howard W. Hanna, III Howard W. Hanna, III	Director	February 21, 2019
/s/ Leo I. Higdon, Jr. Leo I. Higdon, Jr.	Director	February 21, 2019

Edward J. Kelly III	Director	
/s/ Charles J. Koch Charles J. Koch	Director	February 21, 2019
Terrance J. Lillis	Director	
/s/ Arthur F. Ryan Arthur F. Ryan	Director	February 21, 2019
/s/ Shivan S. Subramaniam Shivan S. Subramaniam	Director	February 21, 2019
/s/ Wendy A. Watson Wendy A. Watson	Director	February 21, 2019
/s/ Marita Zuraitis Marita Zuraitis	Director	February 21, 2019

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