

CITIZENS FINANCIAL GROUP INC/RI  
Form 10-Q  
August 03, 2017

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

For the Quarterly Period Ended  
June 30, 2017

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 (I.R.S. Employer  
Incorporation or Organization) Identification Number)  
One Citizens Plaza, Providence, RI 02903  
(Address of principal executive offices, including zip code)  
(401) 456-7000  
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)  Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

There were 500,671,099 shares of Registrant's common stock (\$0.01 par value) outstanding on August 1, 2017.



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## CITIZENS FINANCIAL GROUP, INC.

## GLOSSARY OF ACRONYMS AND TERMS

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

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

Mid-Atlantic

District of Columbia, Delaware, Maryland, New Jersey, New York, Pennsylvania,  
Virginia, and West Virginia

Midwest

Illinois, Indiana, Michigan, and Ohio

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CITIZENS FINANCIAL GROUP, INC.

|                |  |
|----------------|--|
| MD&A           | Management's Discussion and Analysis of Financial Condition and Results of Operations  |
| MSR            | Mortgage Servicing Right   |
| New England    | Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont  |
| NSFR           | Net Stable Funding Ratio   |
| OCC            | Office of the Comptroller of the Currency  |
| OCI            | Other Comprehensive Income (Loss)  |
| Parent Company | Citizens Financial Group, Inc. (the Parent Company of Citizens Bank of Pennsylvania, Citizens Bank, N.A. and other subsidiaries) |
| PD             | Probability of Default   |
| 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   |



CITIZENS FINANCIAL GROUP, INC.

## PART I. FINANCIAL INFORMATION

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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CITIZENS FINANCIAL GROUP, INC.  
FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS

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

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

- Negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of nonperforming assets, charge-offs and provision expense;
- The rate of growth in the economy and employment levels, as well as general business and economic conditions;
- Our ability to implement our strategic plan, including the cost savings and efficiency components, and achieve our indicative performance targets;
- Our ability to remedy regulatory deficiencies and meet supervisory requirements and expectations;
- Liabilities 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 pay any dividends to holders of our common stock, or as to the amount of any such 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 our Annual Report on Form 10-K for the year ended December 31, 2016.

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

INTRODUCTION

Citizens Financial Group, Inc. is one of the nation's oldest and largest financial institutions with \$151.4 billion in assets as of June 30, 2017. Our mission is to help our customers, colleagues and communities reach their potential. Headquartered in Providence, Rhode Island, we offer a broad range of retail and commercial banking products and services to individuals, small businesses, middle-market companies, large corporations and institutions. We help our customers reach their potential by listening to them and by understanding their needs in order to offer tailored advice, ideas and solutions. In Consumer Banking, we provide an integrated experience that includes mobile and online banking, a 24/7 customer contact center and the convenience of approximately 3,200 ATMs and approximately 1,200 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](http://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 Item 1 of this Form 10-Q, as well as other information contained in this document and our 2016 Annual Report on Form 10-K.

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

FINANCIAL PERFORMANCE

Second Quarter 2017 compared with Second Quarter 2016 - Key Highlights

Second quarter 2017 net income of \$318 million, increased 31% from \$243 million in second quarter 2016, with earnings per diluted common share of \$0.63, up 37% from \$0.46 per diluted common share in second quarter 2016. Second quarter 2017 ROTCE of 9.6% improved from 7.3% in second quarter 2016.

Second quarter 2017 results reflect a 31% increase in net income available to common stockholders, led by revenue growth of 9%, as net interest income increased 11% given 6% average loan growth and a 13 basis point increase in net interest margin as well as noninterest income growth of 4%.

Second quarter 2017 results reflect a \$26 million pre-tax impact related to impairments on aircraft lease assets which, in addition to provision expense of \$70 million, resulted in total credit-related costs of \$96 million.\*

The lease impairments, which largely relate to a non-core runoff portfolio, reduced noninterest income by \$11 million and increased noninterest expense by \$15 million.

Continued strong focus on top-line growth and expense management helped drive positive operating leverage of 5%, a 2.8% improvement in the efficiency ratio and a 2.3% improvement in ROTCE.

Before the impact of the lease impairments, Underlying revenue increased 10% with Underlying noninterest income growth of 7%.\* Underlying operating leverage was 7% and the efficiency ratio improved 4.4%.\*

The provision for credit losses of \$70 million in second quarter 2017 decreased \$20 million from \$90 million in second quarter 2016, largely reflecting continued improvement in portfolio credit quality, partially offset by an increase tied to a retail runoff portfolio and an increase in commercial net charge-offs. Including the \$26 million of lease impairments, total credit-related costs were \$96 million\* in the second quarter 2017, up modestly from the prior year quarter.

The second quarter 2017 tax rate reflected a 1.5% benefit primarily related to investments in historic tax credits.

Fully diluted average common shares outstanding decreased by 23 million shares.

First Half 2017 compared with First Half 2016 - Key Highlights

First half 2017 net income of \$638 million, increased 37% from \$466 million in first half 2016, with earnings per diluted common share of \$1.24, up 43% from \$0.87 per diluted common share in first half 2016. Our first half 2017 results include a \$23 million benefit, or \$0.05 per diluted common share, related to the settlement of certain state tax matters. First half 2017 ROTCE of 9.6% improved from 7.0% in first half 2016.

On an Underlying basis\*, excluding a \$23 million benefit related to the settlement of certain state tax matters, first half 2017 net income of \$615 million was up 32% from first half 2016. First half 2017 Underlying earnings per diluted common share of \$1.19 was up 37% versus first half 2016.\* First half 2017 Underlying ROTCE of 9.3% improved by 232 basis points relative to first half 2016.\*

First half results reflect a 37% increase in net income available to common stockholders, led by revenue growth of 11%, as net interest income increased 11%, given a 7% average loan growth and a 12 basis point increase in net interest margin, as well as noninterest income growth of 9%.

Continued strong focus on top-line growth and expense management helped drive positive operating leverage of 6%, 3.4% improvement in the efficiency ratio from 65.2% to 61.8%, and a 2.7% improvement in ROTCE. On an Underlying basis\*, the efficiency ratio improved 4.2% from 65.2% to 61.0%.

First half 2017 results included a \$26 million pre-tax impact related to impairments on aircraft lease assets, which increased the efficiency ratio by 79 basis points on an Underlying basis.\*

The first half 2017 tax rate reflected a 3.9% benefit driven by the settlement of certain state tax matters and investments in historic tax credits.

Fully diluted average common shares outstanding decreased by 21 million shares.

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\*“Underlying” results, as applicable, exclude a first quarter 2017 \$23 million benefit related to the settlement of certain state tax matters and reclassify second quarter 2017 results for the pre-tax impact of \$26 million of lease asset impairments to reflect their credit-related impact. For more information on the computation of key performance metrics and non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics

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

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

SELECTED CONSOLIDATED FINANCIAL DATA

The summary Consolidated Operating Data for the three and six months ended June 30, 2017 and 2016 and the summary Consolidated Balance Sheet data as of June 30, 2017 and December 31, 2016 are derived from our unaudited interim Consolidated Financial Statements included in Part I, Item 1 — Financial Statements of this report. Our historical results are not necessarily indicative of the results expected for any future period.

Our unaudited interim Consolidated Financial Statements have been prepared on the same basis as the audited Consolidated Financial Statements and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the information set forth herein. Our operating results for the three and six months ended June 30, 2017 are not necessarily indicative of those to be expected for the year ending December 31, 2017 or for any future period. The following selected consolidated financial data should be read in conjunction with our unaudited interim Consolidated Financial Statements and the Notes thereto.

| (dollars in millions, except per-share amounts)         | Three Months<br>Ended June 30, |        | Six Months Ended<br>June 30, |         |   |
|---|--------------------------------|--------|------------------------------|---------|---|
|   | 2017                           | 2016   | 2017                         | 2016    |   |
| <b>OPERATING DATA:</b>                                  |                                |        |                              |         |   |
| Net interest income                                     | \$1,026                        | \$923  | \$2,031                      | \$1,827 |   |
| Noninterest income                                      | 370                            | 355    | 749                          | 685     |   |
| Total revenue   | 1,396                          | 1,278  | 2,780                        | 2,512   |   |
| Provision for credit losses                             | 70                             | 90     | 166                          | 181     |   |
| Noninterest expense                                     | 864                            | 827    | 1,718                        | 1,638   |   |
| Income before income tax expense                        | 462                            | 361    | 896                          | 693     |   |
| Income tax expense                                      | 144                            | 118    | 258                          | 227     |   |
| Net income  | \$318                          | \$243  | \$638                        | \$466   |   |
| Net income available to common stockholders             | \$318                          | \$243  | \$631                        | \$459   |   |
| Net income per common share - basic                     | \$0.63                         | \$0.46 | \$1.24                       | \$0.87  |   |
| Net income per common share - diluted                   | \$0.63                         | \$0.46 | \$1.24                       | \$0.87  |   |
| <b>OTHER OPERATING DATA:</b>                            |                                |        |                              |         |   |
| Return on average common equity <sup>(1)</sup>          | 6.48                           | % 4.94 | % 6.50                       | % 4.70  | % |
| Return on average tangible common equity <sup>(1)</sup> | 9.57                           | 7.30   | 9.62                         | 6.96    |   |
| Return on average total assets <sup>(1)</sup>           | 0.85                           | 0.69   | 0.86                         | 0.67    |   |
| Return on average total tangible assets <sup>(1)</sup>  | 0.89                           | 0.72   | 0.90                         | 0.70    |   |
| Efficiency ratio <sup>(1)</sup>                         | 61.94                          | 64.71  | 61.81                        | 65.18   |   |
| Operating leverage <sup>(1) (2)</sup>                   | 4.76                           | 8.16   | 5.79                         | 6.20    |   |
| Net interest margin <sup>(1)</sup>                      | 2.97                           | 2.84   | 2.97                         | 2.85    |   |

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

| (dollars in millions)  | June 30,<br>2017 | December 31,<br>2016 |
|--|------------------|----------------------|
| <b>BALANCE SHEET DATA:</b>   |                  |                      |
| Total assets   | \$151,407        | \$149,520            |
| Loans and leases <sup>(3)</sup>  | 109,046          | 107,669              |
| Allowance for loan and lease losses  | (1,219 )         | (1,236 )             |
| Total securities   | 25,115           | 25,610               |
| Goodwill   | 6,887            | 6,876                |
| Total liabilities  | 131,343          | 129,773              |
| Total deposits   | 113,613          | 109,804              |
| Federal funds purchased and securities sold under agreements to repurchase | 429              | 1,148                |
| Other short-term borrowed funds  | 2,004            | 3,211                |
| Long-term borrowed funds   | 13,154           | 12,790               |
| Total stockholders' equity   | 20,064           | 19,747               |

**OTHER BALANCE SHEET DATA:**

## Asset Quality Ratios:

|   |        |        |   |
|---|--------|--------|---|
| Allowance for loan and lease losses as a percentage of total loans and leases         | 1.12   | % 1.15 | % |
| Allowance for loan and lease losses as a percentage of nonperforming loans and leases | 118.98 | 118.32 |   |
| Nonperforming loans and leases as a percentage of total loans and leases              | 0.94   | 0.97   |   |

Capital Ratios:<sup>(4)</sup>

|                                      |      |      |
|--------------------------------------|------|------|
| CET1 capital ratio <sup>(5)</sup>    | 11.2 | 11.2 |
| Tier 1 capital ratio <sup>(6)</sup>  | 11.4 | 11.4 |
| Total capital ratio <sup>(7)</sup>   | 14.0 | 14.0 |
| Tier 1 leverage ratio <sup>(8)</sup> | 9.9  | 9.9  |

<sup>(1)</sup> See “—Principal Components of Operations and Key Performance Metrics Used By Management” for definitions of our key performance metrics.

<sup>(2)</sup> “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 2016 calculation, total revenue was \$1.2 billion and \$2.4 billion for the three and six months ended June 30, 2015, respectively, and noninterest expense was \$841 million and \$1.7 billion for the three and six months ended June 30, 2015, respectively.

<sup>(3)</sup> Excludes loans held for sale of \$707 million and \$625 million as of June 30, 2017 and December 31, 2016, respectively.

<sup>(4)</sup> 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 June 30, 2017 and December 31, 2016 are prepared using the U.S. Basel III Standardized transitional approach.

<sup>(5)</sup> “Common equity tier 1 capital ratio” represents CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

<sup>(6)</sup> “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.

<sup>(7)</sup> “Total capital ratio” is total capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

<sup>(8)</sup> “Tier 1 leverage ratio” is tier 1 capital divided by quarterly average total assets as defined under U.S. Basel III Standardized approach.





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

PRINCIPAL COMPONENTS OF OPERATIONS AND KEY PERFORMANCE METRICS USED BY MANAGEMENT

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

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

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. Additionally, student loans were renamed "education" loans to more closely align with the full range of services offered to borrowers, from loan origination to refinancing. These changes had no effect on net income, total comprehensive income, total assets or total stockholders' equity as previously reported.

Key performance metrics and non-GAAP financial measures

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

Return on average common equity, which we define as 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 (U.S. Basel III Standardized fully phased-in basis), represents CET1 capital divided by total risk-weighted assets as defined under U.S. Basel III Standardized approach.

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

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

Other companies may use similarly titled non-GAAP financial measures that are calculated differently from the way we calculate such measures. Accordingly, our non-GAAP financial measures may not be comparable to similar measures used by other companies. We caution investors not to place undue reliance on such non-GAAP measures, but instead to consider them with the most directly comparable GAAP measure. Non-GAAP financial measures have



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limitations as analytical tools, and should not be considered in isolation, or as a substitute for our results as reported under GAAP.

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

The following table presents computations of key performance metrics used throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations":

| (dollars in millions)  | As of and for the Three<br>Months Ended June 30, |           | As of and for the Six<br>Months Ended June 30, |           |   |
|--|--|-----------|--|-----------|---|
|  | Ref. 2017  | 2016      | 2017   | 2016      |   |
| Total revenue (GAAP)   | A \$1,396  | \$1,278   | \$2,780  | \$2,512   |   |
| Noninterest expense (GAAP)                                       | B 864  | 827       | 1,718  | 1,638     |   |
| Net income (GAAP)  | C 318  | 243       | 638  | 466       |   |
| Net income available to common stockholders (GAAP)               | D 318  | 243       | 631  | 459       |   |
| Return on average common equity:                                 |  |           |  |           |   |
| Average common equity (GAAP)                                     | E \$19,659                                       | \$19,768  | \$19,560                                       | \$19,667  |   |
| Return on average common equity                                  | D/E 6.48   | % 4.94    | % 6.50   | % 4.70    | % |
| Return on average tangible common equity:                        |  |           |  |           |   |
| Average common equity (GAAP)                                     | E \$19,659                                       | \$19,768  | \$19,560                                       | \$19,667  |   |
| Less: Average goodwill (GAAP)                                    | 6,882  | 6,876     | 6,879  | 6,876     |   |
| Less: Average other intangibles (GAAP)                           | 2  | 2         | 1  | 2         |   |
| Add: Average deferred tax liabilities related to goodwill (GAAP) | 534  | 496       | 533  | 488       |   |
| Average tangible common equity                                   | F \$13,309                                       | \$13,386  | \$13,213                                       | \$13,277  |   |
| Return on average tangible common equity                         | D/F 9.57   | % 7.30    | % 9.62   | % 6.96    | % |
| Return on average total assets:                                  |  |           |  |           |   |
| Average total assets (GAAP)                                      | G \$149,878                                      | \$142,179 | \$149,335                                      | \$140,479 |   |
| Return on average total assets                                   | C/G 0.85   | % 0.69    | % 0.86   | % 0.67    | % |
| Return on average total tangible assets:                         |  |           |  |           |   |
| Average total assets (GAAP)                                      | G \$149,878                                      | \$142,179 | \$149,335                                      | \$140,479 |   |
| Less: Average goodwill (GAAP)                                    | 6,882  | 6,876     | 6,879  | 6,876     |   |
| Less: Average other intangibles (GAAP)                           | 2  | 2         | 1  | 2         |   |
| Add: Average deferred tax liabilities related to goodwill (GAAP) | 534  | 496       | 533  | 488       |   |
| Average tangible assets  | H \$143,528                                      | \$135,797 | \$142,988                                      | \$134,089 |   |
| Return on average total tangible assets                          | C/H 0.89   | % 0.72    | % 0.90   | % 0.70    | % |
| Efficiency ratio:  |  |           |  |           |   |
| Efficiency ratio   | B/A 61.94  | % 64.71   | % 61.81  | % 65.18   | % |
| Operating Leverage:  |  |           |  |           |   |
| Increase in total revenue  | 9.23   | % 6.50    | % 10.67  | % 5.41    | % |
| Increase (decrease) noninterest expense                          | 4.47   | (1.66)    | ) 4.88   | (0.79)    | ) |
| Operating Leverage   | 4.76   | % 8.16    | % 5.79   | % 6.20    | % |

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

| (in millions, except share, per-share and ratio data)              | Ref. | As of and for the<br>Three Months<br>Ended June 30, |         | As of and for the<br>Six Months Ended<br>June 30, |         |
|--|------|---|---------|---|---------|
|  |      | 2017  | 2016    | 2017  | 2016    |
| Noninterest income, Underlying:                                    |      |   |         |   |         |
| Noninterest income (GAAP)  |      | \$370   | \$355   | \$749   | \$685   |
| Less: Lease impairment credit-related costs                        |      | (11 )   | —       | (11 )   | —       |
| Noninterest income, Underlying (non-GAAP)                          |      | \$381   | \$355   | \$760   | \$685   |
| Total revenue, Underlying:   |      |   |         |   |         |
| Total revenue (GAAP)   | A    | \$1,396   | \$1,278 | \$2,780   | \$2,512 |
| Less: Lease impairment credit-related costs                        |      | (11 )   | —       | (11 )   | —       |
| Total revenue, Underlying (non-GAAP)                               | I    | \$1,407   | \$1,278 | \$2,791   | \$2,512 |
| Noninterest expense, Underlying:                                   |      |   |         |   |         |
| Noninterest expense (GAAP)   | B    | \$864   | \$827   | \$1,718   | \$1,638 |
| Less: Lease impairment credit-related costs                        |      | 15  | —       | 15  | —       |
| Noninterest expense, Underlying (non-GAAP)                         | J    | \$849   | \$827   | \$1,703   | \$1,638 |
| Pre-provision profit, Underlying:                                  |      |   |         |   |         |
| Pre-provision profit (GAAP)  |      | \$532   | \$451   | \$1,062   | \$874   |
| Less: Lease impairment credit-related costs                        |      | (26 )   | —       | (26 )   | —       |
| Pre-provision profit, Underlying (non-GAAP)                        |      | \$558   | \$451   | \$1,088   | \$874   |
| Total credit-related costs, Underlying:                            |      |   |         |   |         |
| Provision for credit losses (GAAP)                                 |      | \$70  | \$90    | \$166   | \$181   |
| Add: Lease impairment credit-related costs                         |      | 26  | —       | 26  | —       |
| Total credit-related costs, Underlying (non-GAAP)                  |      | \$96  | \$90    | \$192   | \$181   |
| Income before income tax expense (GAAP)                            | K    | \$462   | \$361   | \$896   | \$693   |
| Income tax expense and effective income tax rate, Underlying:      |      |   |         |   |         |
| Income tax expense (GAAP)  | L    | \$144   | \$118   | \$258   | \$227   |
| Less: Settlement of certain state tax matters                      |      | —   | —       | (23 )   | —       |
| Income tax expense, Underlying (non-GAAP)                          | M    | \$144   | \$118   | \$281   | \$227   |
| Effective income tax rate (GAAP)                                   | L/K  | 31.13 %   | 32.61 % | 28.82 %   | 32.73 % |
| Effective income tax rate, Underlying (non-GAAP)                   | M/K  | 31.13   | 32.61   | 31.34 %   | 32.73   |
| Net income, Underlying:  |      |   |         |   |         |
| Net income (GAAP)  | C    | \$318   | \$243   | \$638   | \$466   |
| Less: Settlement of certain state tax matters                      |      | —   | —       | 23  | —       |
| Net income, Underlying (non-GAAP)                                  | N    | \$318   | \$243   | \$615   | \$466   |
| Net income available to common stockholders, Underlying:           |      |   |         |   |         |
| Net income available to common stockholders (GAAP)                 | D    | \$318   | \$243   | \$631   | \$459   |
| Less: Settlement of certain state tax matters                      |      | —   | —       | 23  | —       |
| Net income available to common stockholders, Underlying (non-GAAP) | O    | \$318   | \$243   | \$608   | \$459   |

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| (in millions, except share, per-share and ratio data)  | As of and for the Three |           | As of and for the Six |           |   |
|--|-------------------------|-----------|-----------------------|-----------|---|
|  | Ref. 2017               | 2016      | 2017                  | 2016      |   |
| Efficiency ratio and efficiency ratio, Underlying:   |                         |           |                       |           |   |
| Efficiency ratio   | B/A 61.94               | % 64.71   | % 61.81               | % 65.18   | % |
| Efficiency ratio, Underlying (non-GAAP)  | J/I 60.36               | 64.71     | 61.02                 | 65.18     |   |
| Operating Leverage, Underlying   |                         |           |                       |           |   |
| Increase in total revenue (GAAP)   | 9.23                    | % 6.50    | % 10.67               | % 5.41    | % |
| Increase (decrease) noninterest expense (GAAP)   | 4.47                    | (1.66)    | ) 4.88                | (0.79)    | ) |
| Operating Leverage   | 4.76                    | % 8.16    | % 5.79                | % 6.20    | % |
| Increase in total revenue, Underlying (non-GAAP)   | 10.09                   | % 6.50    | % 11.11               | % 5.41    | % |
| Increase (decrease) noninterest expense, Underlying (non-GAAP)                                     | 2.66                    | (1.66)    | ) 3.97                | (0.79)    | ) |
| Operating Leverage, Underlying (non-GAAP)  | 7.43                    | % 8.16    | % 7.14                | % 6.20    | % |
| Return on average common equity and return on average common equity, Underlying:                   |                         |           |                       |           |   |
| Average common equity (GAAP)   | E \$19,659              | \$19,768  | \$19,560              | \$19,667  |   |
| Return on average common equity  | D/E 6.48                | % 4.94    | % 6.50                | % 4.70    | % |
| Return on average common equity, Underlying (non-GAAP)   | O/E 6.48                | 4.94      | 6.27                  | 4.70      |   |
| Return on average tangible common equity and return on average tangible common equity, Underlying: |                         |           |                       |           |   |
| Average common equity (GAAP)   | E \$19,659              | \$19,768  | \$19,560              | \$19,667  |   |
| Less: Average goodwill (GAAP)  | 6,882                   | 6,876     | 6,879                 | 6,876     |   |
| Less: Average other intangibles (GAAP)   | 2                       | 2         | 1                     | 2         |   |
| Add: Average deferred tax liabilities related to goodwill (GAAP)                                   | 534                     | 496       | 533                   | 488       |   |
| Average tangible common equity   | F \$13,309              | \$13,386  | \$13,213              | \$13,277  |   |
| Return on average tangible common equity   | D/F 9.57                | % 7.30    | % 9.62                | % 6.96    | % |
| Return on average tangible common equity, Underlying (non-GAAP)                                    | O/F 9.57                | 7.30      | 9.28                  | 6.96      |   |
| Return on average total assets and return on average total assets, Underlying:                     |                         |           |                       |           |   |
| Average total assets (GAAP)  | G \$149,878             | \$142,179 | \$149,335             | \$140,479 |   |
| Return on average total assets   | C/G 0.85                | % 0.69    | % 0.86                | % 0.67    | % |
| Return on average total assets, Underlying (non-GAAP)  | N/G 0.85                | 0.69      | 0.83                  | 0.67      |   |
| Return on average total tangible assets and return on average total tangible assets, Underlying:   |                         |           |                       |           |   |
| Average total assets (GAAP)  | G \$149,878             | \$142,179 | \$149,335             | \$140,479 |   |
| Less: Average goodwill (GAAP)  | 6,882                   | 6,876     | 6,879                 | 6,876     |   |
| Less: Average other intangibles (GAAP)   | 2                       | 2         | 1                     | 2         |   |
| Add: Average deferred tax liabilities related to goodwill (GAAP)                                   | 534                     | 496       | 533                   | 488       |   |
| Average tangible assets  | H \$143,528             | \$135,797 | \$142,988             | \$134,089 |   |
| Return on average total tangible assets  | C/H 0.89                | % 0.72    | % 0.90                | % 0.70    | % |
| Return on average total tangible assets, Underlying (non-GAAP)                                     | N/H 0.89                | 0.72      | 0.87                  | 0.70      |   |
| Net income per average common share - basic and diluted, Underlying:                               |                         |           |                       |           |   |

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|  |     |             |             |             |             |
|--|-----|-------------|-------------|-------------|-------------|
| Average common shares outstanding - basic (GAAP)                     | P   | 506,371,846 | 528,968,330 | 507,903,141 | 528,519,489 |
| Average common shares outstanding - diluted (GAAP)                   | Q   | 507,414,122 | 530,365,203 | 509,362,055 | 530,396,871 |
| Net income available to common stockholders (GAAP)                   | D   | \$318       | \$243       | \$631       | \$459       |
| Net income per average common share - basic (GAAP)                   | D/P | 0.63        | 0.46        | 1.24        | 0.87        |
| Net income per average common share - diluted (GAAP)                 | D/Q | 0.63        | 0.46        | 1.24        | 0.87        |
| Net income available to common stockholders, Underlying (non-GAAP)   | O   | 318         | 243         | 608         | 459         |
| Net income per average common share - basic, Underlying (non-GAAP)   | O/P | 0.63        | 0.46        | 1.20        | 0.87        |
| Net income per average common share - diluted, Underlying (non-GAAP) | O/Q | 0.63        | 0.46        | 1.19        | 0.87        |

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As of and for the Three Months Ended June 30,  
2017 2016

(dollars in millions) Ref. ~~Commercial~~ Other Consolidated  
**Banking**