CITIZENS FINANCIAL GROUP INC/RI
Form S-1/A
June 20, 2014
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As filed with the Securities and Exchange Commission on June 19, 2014

Registration No. 333-195900

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

CITIZENS FINANCIAL GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**6021**	**05-0412693**

(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

One Citizens Plaza

Providence, RI 02903

(401) 456-7000

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Sheldon Goldfarb

Chief Legal Officer

Citizens Financial Group, Inc.

One Citizens Plaza

Providence, RI 02903

(401) 456-7000

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copies to:

Nicholas A. Kronfeld **Luigi L. De Ghenghi** **Davis Polk & Wardwell LLP** **450 Lexington Avenue** **New York, New York 10017** **(212) 450-4000**	**Leslie N. Silverman** **Derek M. Bush** **Cleary Gottlieb Steen & Hamilton LLP** **One Liberty Plaza** **New York, NY 10006** **(212) 225-2000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ __________

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ __________

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ __________

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	**Proposed Maximum Aggregate Offering Price**[(1)(2)]	**Amount of Registration Fee**[(3)]
Common Stock, par value $0.01 per share	$100,000,000	$12,880

(1) Includes shares which the underwriters have the right to purchase to cover over-allotments.

(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

(3) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued , 2014

SHARES

COMMON STOCK

The selling stockholders are offering shares of common stock of Citizens Financial Group, Inc. We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholders. This is our initial public offering and no public market exists for our shares. We anticipate that the initial public offering price will be between $ and $ per share.

We intend to apply to list our shares of common stock on under the symbol CFG.

Investing in our common stock involves risks. See Risk Factors beginning on page 16.

PRICE $ A SHARE

	Price to		**Proceeds to**

	Public	**Underwriting Discounts and Commissions**	**Selling Stockholders**
Per Share	$	$	$
Total	$	$	$

The selling stockholders have granted the underwriters the right to purchase an additional shares of common stock to cover over-allotments.

The underwriters expect to deliver the shares of common stock to purchasers on , 2014.

Neither the Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Joint Global Coordinators

Morgan Stanley | Goldman, Sachs & Co.

Joint Bookrunner

J.P. Morgan

Prospectus dated , 2014.

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CERTAIN IMPORTANT INFORMATION

In this prospectus, we, us, our and CFG refer to Citizens Financial Group, Inc. together with its consolidated subsidiaries, CBNA means Citizens Bank, N.A., CBPA means Citizens Bank of Pennsylvania, our banking subsidiaries means CBNA and CBPA, RBS means The Royal Bank of Scotland Group plc and the RBS Group means RBS together with its subsidiaries (other than CFG). Unless otherwise noted, when we refer to our peers or peer regional banks, we refer to BB&T, Comerica, Fifth Third, KeyCorp, M&T, PNC, Regions, SunTrust and U.S. Bancorp. When we refer to our approximately 18,400 employees, we include the full-time equivalent of our approximately 18,200 full-time employees and 875 part-time employees, including employees on leave.

Unless otherwise indicated, the information presented in this prospectus includes the assets, liabilities, premises and employees associated with our Chicago retail branches. We reached an agreement in January 2014 to sell these branches to U.S. Bancorp along with certain assets and deposits, and expect to close the transaction in mid-2014. As of March 31, 2014, assets and liabilities associated with our Chicago retail branches were accounted for as assets and liabilities held for sale in our unaudited interim consolidated financial statements included in this prospectus.

We and the selling stockholders have not authorized anyone to provide any information other than that contained or incorporated by reference in this prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. The selling stockholders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where such offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock.

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Until , 2014 (25 days after commencement of this offering), all dealers that effect transactions in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

We have proprietary rights to trademarks, trade names and service marks appearing in this prospectus that are important to our business. This prospectus also contains additional trade names, trademarks and service marks belonging to the RBS Group. Solely for convenience, the trademarks, service marks and trade names referred to in this prospectus are without the ® and symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, service marks and trade names. All trademarks, service marks and trade names appearing in this prospectus are the property of their respective owners.

Within this prospectus, we reference certain industry and sector information and statistics. We have obtained this information and statistics from various independent third-party sources, including independent industry publications, reports by market research firms and other independent sources. Nothing in the data used or derived from third-party sources should be construed as advice. The SNL Financial LC, or SNL Financial, data included in this prospectus excludes all non-retail bank holding companies. 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 over 20% brokered deposits (of total deposits), institutions with over 20% credit card loans (of total loans) and institutions deemed not to broadly participate in the banking services market. Some data and other information are also based on our good faith estimates, which are derived from our review of internal surveys and independent sources. We believe that these external sources and estimates are reliable, but have not independently verified them.

Percentage changes, per share amounts, and ratios presented in this prospectus are calculated using whole dollars.

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PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary may not contain all of the information that you should consider before investing in our common stock. Therefore, you should read the entire prospectus carefully, including the section entitled Risk Factors, as well the consolidated financial statements and related notes included in this prospectus, before making an investment decision to invest in our common stock.

Company Overview

We are the 13th largest retail bank holding company in the United States according to SNL Financial with $126.9 billion of total assets as of March 31, 2014. Headquartered in Providence, Rhode Island, we deliver a broad range of retail and commercial banking products and services to more than five million individuals, institutions and companies. Our approximately 18,400 employees strive to meet the financial needs of customers and prospects through approximately 1,350 branches and approximately 3,500 ATMs operated in a 12-state footprint across the New England, Mid-Atlantic and Midwest regions and through our online, telephone and mobile banking platforms. We have more than 80 retail and commercial non-branch offices located both in our geographic footprint and in five states and the District of Columbia outside our branch footprint. Our 12-state branch banking footprint contains approximately 34.6 million households and 3.6 million businesses according to SNL Financial.

As of March 31, 2014, including assets and liabilities classified as held for sale, we had loans of $88.5 billion, deposits of $92.7 billion and stockholders equity of $19.4 billion, and we generated revenues of $4.7 billion for the twelve months ended March 31, 2014. We operate our business through two operating segments: Consumer Banking and Commercial Banking. As of March 31, 2014, the contributions of Consumer Banking and Commercial Banking to the loans in our operating segments were approximately 56% and 44%, respectively.

Consumer Banking serves retail customers and small businesses with annual revenues of up to $25 million. Consumer Banking products and services include deposit products, mortgage and home equity lending, student loans, auto financing, credit cards, business loans and wealth management and investment services. Product strengths and significant growth developments in Consumer Banking include:

- *Home equity lines of credit (HELOCs)*: With $16.6 billion in HELOC loans outstanding as of March 31, 2014, we ranked sixth nationally according to SNL Financial;

- *Auto financing*: Through a network of over 6,200 automotive dealerships in 41 states, auto finance represented $9.8 billion of loans as of March 31, 2014, ranking 14th nationally among regulated depository institutions according to SNL Financial;

- *Mortgage lending*: We have improved our mortgage origination capabilities from an unranked position as of December 31, 2009, to 27th among retail originators nationally as of March 31, 2014 according to Inside Mortgage Finance; and

- *Private student lending*: We launched our education finance business in 2009 and have expanded to partner with over 1,200 higher education schools in all 50 states, which resulted in loan origination volume more than doubling to $253 million in 2013 from $112 million in 2010.

Commercial Banking primarily targets companies and institutions with annual revenues of $25 million to $2.0 billion. Commercial Banking offers a broad complement of financial products and solutions, including lending and leasing, trade financing, deposit and treasury management, foreign

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exchange and interest rate risk management, corporate finance and debt and equity capital markets capabilities. Product strengths and significant growth developments in Commercial Banking products include:

Commercial and industrial loans: We generated a 12% compound annual growth rate in our commercial and industrial loan portfolio from year-end 2009 through the first quarter of 2014;

Capital markets: We have built out our capital markets capabilities over the past several years and now offer broader multifaceted financial solutions to meet our clients more sophisticated needs. These capabilities include developing expertise in areas like loan syndications which enhance our ability to meet the growing capital needs of clients while limiting balance sheet risk and better positioning us to compete for other banking products. Since 2010, we have completed 372 syndicated bookrunner transactions, including 168 lead-left roles;

Franchise finance: Through our franchise finance business we provide financing to owners of franchised and chain restaurants, such as premier brands like McDonalds, Taco Bell, Applebee s, Wendy s and Dunkin Donuts, as well as convenience stores and gas stations on a national basis; and

Commercial real estate: Following the recent cycle of real estate market stress, we took steps to reposition our commercial real estate business, which represented $6.6 billion in loans at March 31, 2014, to enhance our focus on originating higher-quality assets in more attractive segments including institutional developers and real estate investment trusts.

The following tables present certain financial information for our segments as of and for the three months ended March 31, 2014 and as of and for the year ended December 31, 2013:

	As of and for the Three Months Ended March 31, 2014				As of and for the Year Ended December 31, 2013			
	Consumer Banking	Commercial Banking	Other(1)	Consolidated	Consumer Banking	Commercial Banking	Other(1)	Consolidated
	(in millions)							
Total loans and leases and loans held for sale (average)	$ 46,154	$ 36,577	$ 4,620	$ 87,351	$ 45,106	$ 34,647	$ 6,044	$ 85,797
Total deposits and deposits held for sale (average)	70,769	17,440	3,387	91,596	72,158	17,516	3,662	93,336
Net interest income	537	256	15	808	2,176	1,031	(149)	3,058
Noninterest income	219	107	32	358	1,025	389	218	1,632

Total revenue	$ 756	$ 363	$ 47	$ 1,166	$ 3,201	$ 1,420	$ 69	$ 4,690
Net Income (loss)[2]	32	141	(7)	166	242	514	(4,182)	(3,426)

(1) 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, revenues, provision for credit losses and expenses not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see Management s Discussion and Analysis of Financial Condition and Results of Operation Analysis of Financial Condition.

(2) Includes a goodwill impairment charge of $4.4 billion ($4.1 billion after tax) in the second quarter. For more information, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Year Ended December 31, 2013 Compared with Year Ended December 31, 2012 Net Income (Loss) and Note 8 Goodwill to our audited consolidated financial statements included elsewhere in this prospectus.

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History and Recent Strategic Initiatives

Our history dates back to High Street Bank, founded in 1828, which established Citizens Savings Bank in 1871. By 1981, we had grown to 29 branches in Rhode Island with approximately $1.0 billion of assets, and in 1988 we became a wholly owned subsidiary of the RBS Group. Over the following two decades, we grew substantially through a series of over 25 strategic bank acquisitions, including the purchase of the Bank of New York Mellon s retail branch network in 2001, which included $14.4 billion in deposits, and the 2004 acquisition of Charter One, which had $41.3 billion in assets. These acquisitions greatly expanded our footprint throughout New England and into the Mid-Atlantic and the Midwest, transforming us from a local retail bank into one of the largest retail U.S. bank holding companies with nearly $170.0 billion in assets at the start of the global financial crisis.

Following this period of expansion and the subsequent global financial crisis, we took a number of decisive steps to begin repositioning and strengthening our business profile, including:

Transformed business mix: Refocused our efforts to transform our business model toward a more balanced and diversified platform with a greater emphasis on higher-growth, higher-return businesses. As of March 31, 2014, we had expanded the contribution of Commercial Banking relative to Consumer Banking to approximately 44% and 56% of the loans in our operating segments, respectively, as compared to 36% and 64%, respectively, as of December 31, 2009;

Improved deposit mix: Increased lower cost and more stable demand, checking, money market and savings accounts to 89% from 74% of total deposits at March 31, 2014 compared to December 31, 2009. This improvement in our core deposit funding mix, as well as our efforts to aggressively lower the rates paid on our time deposits, resulted in a more beneficial cost of total deposits, which decreased to 0.15% in the first quarter of 2014 from 0.23% in 2013 and 1.32% in 2009;

Reduced reliance on wholesale funding: Since the start of the financial crisis in 2009, we have aggressively worked to reduce the higher cost wholesale funding component of our balance sheet. We reduced wholesale borrowings from $23.7 billion as of December 31, 2009 to $12.4 billion as of March 31, 2014 and as of that date the balances were principally lower cost and more stable secured Federal Home Loan Bank and repurchase agreement borrowings;

Improved strategic focus: Identified and began running down certain non-core assets deemed to be inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. The non-core portfolio decreased to $3.7 billion at March 31, 2014 from $20.5 billion when it was designated on June 30, 2009;

Optimized our geographic footprint: Exited certain geographies where we had underperforming market share positions and redeployed the capital into businesses with more attractive growth and return characteristics. In 2008, we sold 18 branches in the New York Adirondacks region, and in 2009, we sold our Indiana branch franchise, which consisted of 65 branches. In 2012, we sold 57 mostly in-store branches in Long Island and Westchester County, New York, and we have entered into an agreement to sell our 103 Chicago retail branches along with certain assets and deposits, which we expect to close in mid-2014. Additionally, we have routinely sought to optimize the branch footprint through a process of consolidation and rationalization, which has resulted in the closure of another 221 branches since 2009;

Refined our branch service delivery model: Proactively addressed evolving consumer preferences for banking interactions through expansion of alternative distribution channels. We have reduced our branch footprint while building out self-service channels through online

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and mobile banking including remote deposit capture and person-to-person payments. Our mobile banking channel has experienced rapid growth with a 46% increase in active mobile customers since year-end 2012. We have continued to optimize the distribution network by migrating staffing in our branches toward a universal banker model, which involves training bankers to handle both teller and traditional banker functions, with a goal of further improving the efficiency of our network and allowing frontline employees to become more sales and solutions oriented; and

Increased infrastructure investment: Invested more than $900 million in infrastructure and technology since 2009, with an additional $250 million planned for each of 2014 and 2015. These investments, intended to lower our costs and improve our customer experience, include significant programs to enhance our information technology resiliency, upgrade customer-facing technology and streamline operations. Significant investments included the 2013 launch of our new teller system, new commercial loan platform and new auto loan platform and the 2013 upgrade of the majority of our ATM network, including by equipping more than 1,600 ATMs with advanced deposit-taking functionality. These investments also involved spending to prepare for the planned rollout of our new mortgage platform.

These steps have helped provide a strong foundation for our ongoing transformation from a wholly owned subsidiary of a global financial group into a stand-alone U.S. regional bank. We have brought together a seasoned management team with an average of over 20 years of banking experience at large international financial institutions. The team was bolstered by the May 2013 announcement of Bruce Van Saun s appointment as our Chairman and CEO. The team is focused on delivering improved returns, through implementation of growth and efficiency initiatives, along with a more disciplined allocation of capital and resources. This performance-driven culture is designed to enhance our competitiveness by rigorously analyzing the risk-return profiles of our diversified businesses and selectively investing in those that are well positioned to gain market share, improve efficiency and generate long-term growth and sustainable profitability. In prior years, many of our strategies around risk management, capital and investments were heavily influenced by our status as a subsidiary of a larger global financial institution.

Our Competitive Strengths

Our long operating history, through a range of challenging economic cycles, forms the basis for our competitive strengths. From our community bank roots, we bring a commitment to strong customer relationships, local service and an active involvement in the communities we serve. Our acquisitions enabled us to develop material scale in highly desirable markets and broad product capabilities. The actions taken since the global financial crisis have resulted in a business model with solid asset quality, a stable core deposit mix and a superior capital position. In particular, we believe that the following strengths differentiate us from our competitors and provide a strong foundation from which to execute our strategy to deliver enhanced growth, profitability and returns.

Significant Scale with Strong Market Penetration in Attractive Geographic Markets: We believe our market share and scale in our footprint is central to our success and growth. With approximately 1,350 branches and 80 non-branch offices, approximately 3,500 ATMs and 18,400 employees, as well as our online, telephone and mobile banking platforms, we serve more than five million individuals, institutions and companies. As of June 30, 2013, we ranked second by deposit market share in the New England region[1] and in the top five in nine of our key metropolitan statistical areas, or MSAs, including Boston, Providence, Philadelphia,

[1] The New England region consists of the states of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island and Connecticut.

Pittsburgh and Cleveland according to SNL Financial. We believe this strong market share in our core regions, which have relatively diverse economies and affluent demographics, will help us achieve our long-term growth objectives. The following table sets forth information regarding our competitive position in our principal MSAs.

MSA	Total Branches	Deposits ($ in Millions)	Market Rank[(1)]	Market Share (%)[(1)]
Boston, MA	212	$ 28,343	2	16.4%
Philadelphia, PA	188	17,012	4	8.1
Providence, RI	100	12,854	1	34.6
Pittsburgh, PA	131	7,130	2	8.8
Detroit, MI	95	4,563	6	4.6
Cleveland, OH	64	4,105	5	7.9
Manchester, NH	28	4,014	1	38.7
Albany, NY	29	1,590	4	7.1
Buffalo, NY	43	1,573	4	4.8
Rochester, NY	34	1,540	4	10.3

(1) Source: FDIC, June 2013. Excludes non-retail banks as defined by SNL Financial. See Certain Important Information.

Strong Customer Relationships: We focus on building strong customer relationships by delivering a consistent, high quality level of service supported by a wide range of products and services. We believe that we provide a distinctive customer experience characterized by the personal touch of a local bank with the product selection of a larger financial institution. Our Consumer Banking cross-sell efforts have improved to 4.9 products and services per retail household as of March 31, 2014 compared to 4.2 products and services as of December 31, 2009. Additionally, Consumer Banking improved overall customer satisfaction as measured by J.D. Power and Associates by 5% from 2012 to 2013, while the industry average score improved by 3% during the same period. Our ability to provide a unique customer experience is also evidenced by our Commercial Banking middle market team ranking among the top five in customer and lead bank penetration, with a 9% market penetration in our footprint based on Greenwich Associates rolling four-quarter data as of March 31, 2014.

Stable, Low-Cost Core Deposit Base: We have a strong funding profile, with $92.7 billion of total deposits (including deposits held for sale) as of March 31, 2014, consisting of 29% in noninterest-bearing deposits and 71% in interest-bearing deposits. Noninterest-bearing deposits provide a lower-cost funding base, and we grew this base to $26.7 billion at March 31, 2014, up 40% from $19.0 billion at December 31, 2009. For the three months ended March 31, 2014, our total average cost of deposits was 0.15%, down from 0.23% in 2013, 0.40% in 2012 and 1.32% in 2009.

Superior Capital Position: We are among the most well capitalized large regional banks in the United States, with a Tier 1 common equity ratio of 13.4% as of March 31, 2014, ranking highest among peer regional banks (listed under Certain Important Information), which had an average Tier 1 common equity ratio of 10.3% at that date according to SNL Financial. Our Tier 1 common equity ratio at March 31, 2014 under Basel III rules was 13.1% (on a fully phased-in basis). Our strong capital position provides us the financial flexibility to continue to invest in our businesses and execute our strategic growth initiatives. Through recent capital optimization efforts, we have sought to better align our Tier 1 capital base with peer regional banks, while maintaining a solid total capital position, by reducing Tier 1 capital and increasing

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Tier 2 capital. In 2014, we plan to continue our strategy of capital optimization by exchanging an additional $1.0 billion of Tier 1 common equity for other forms of capital, including Tier 2 subordinated debt. Pro forma for this exchange, our Tier 1 common equity ratio would have been 12.4% as of March 31, 2014.

Solid Asset Quality Throughout a Range of Credit Cycles: Our experienced credit risk professionals and conservative credit culture, combined with centralized processes and consistent underwriting standards across all business lines, have allowed us to maintain strong asset quality through a variety of business cycles. As a result, we weathered the global financial crisis better than our peers: for the two-year period ending December 31, 2009, net charge-offs averaged 1.63% of average loans compared to a peer average of 1.76% according to SNL Financial. More recently, the credit quality of our loan portfolio has continued to improve; nonperforming assets as a percentage of total assets were 1.11% at March 31, 2014 compared to 1.20% and 1.55% as of December 31, 2013 and 2012, respectively. Net charge-offs declined substantially to an annualized 0.40% of average loans in the first quarter of 2014 versus 0.59% for the three months ended March 31, 2013. Our allowance for loan and lease losses was 1.45% of total loans at March 31, 2014. We believe the high quality of our loan portfolio provides us with significant capacity to prudently seek to add more attractive, higher yielding risk-adjusted returns while still maintaining appropriate risk discipline and solid asset quality.

Experienced Management Team Supported by a High-Performing, Talented Workforce: Our leadership team of seasoned industry professionals is supported by a highly motivated, diverse set of managers and employees committed to delivering a strong customer value proposition. Our highly experienced and talented executive management team, whose members have more than 20 years of banking experience on average, provide strong leadership to deliver on our overall business objectives. We have recently made selective additions to our management team and added key business line leaders, including the Head of Distribution and Head of Everyday Banking in Consumer Banking, as well as the Head of Technology Lending and Head of Loan Trading for Commercial Banking. Bruce Van Saun, who was announced as our Chairman and CEO in May 2013, has more than 30 years of financial services experience including four years as the RBS Group Finance Director. Earlier in his career, Mr. Van Saun held a number of senior positions at The Bank of New York Mellon, Deutsche Bank, Wasserstein Perella Group and Kidder Peabody & Co.

Commitment to Communities: Community involvement is one of our principal values and we strive to contribute to a better quality of life by serving the communities across our footprint through employee volunteer efforts, a foundation that funds a range of non-profit organizations and executives that provide board leadership to community organizations. These efforts contribute to a culture that seeks to promote positive employee morale and provide differentiated brand awareness in the community relative to peer banks, while also making a positive difference within the communities we serve. Employee engagement increased during 2013 as highlighted by a 27% increase in employee volunteerism to more than 76,000 hours companywide. In addition, employees serve on more than 440 community boards across our footprint. We believe our strong commitment to our communities provides a competitive advantage by strengthening customer relationships and increasing loyalty.

Business Strategy

Building on our core strengths, we intend to become a top-performing regional bank as viewed through the lenses of our five major stakeholders: customers, investors, regulators, colleagues and

communities. We have identified a series of fundamental strategic initiatives designed to maximize the full potential of our business and drive sustainable growth and enhanced profitability. The core measure of our success in executing our strategic initiatives will be our ability to deliver higher Return on Average Tangible Common Equity, or ROTCE. We aim for our strategic initiatives to increase our ROTCE from 5% in 2013, excluding our $4.4 billion goodwill impairment charge, to a target of greater than % over the medium term.[2] We plan to accomplish this goal through: (a) driving revenue growth in both the Consumer Banking and Commercial Banking segments; (b) enhancing cost reduction efforts across the company; (c) the benefit of a runoff in the non-core loan portfolio and pay-fixed interest rate swaps; (d) leveraging capital actions aimed at better aligning our capital structure with those of regional bank peers; and (e) the beneficial impact of a normalized rate environment on our asset-sensitive balance sheet. We also expect these efforts to result in a targeted efficiency ratio (noninterest expense divided by the sum of net interest income and noninterest income) in the range over the medium term.

Revenue Growth: We are committed to generating profitable revenue growth in a disciplined manner by placing greater emphasis on reallocating resources toward businesses that will further increase and diversify our revenue base in order to deliver more attractive risk-adjusted returns to stockholders.

Increasing Loan Origination We expect to prudently expand our balance sheet and drive increased loan origination volume. In our Consumer business we plan to hire more than sales professionals in mortgage, small business and auto finance over the medium term. In our Commercial business, we will continue to build out industry-focused teams, expand our origination efforts in mid-corporate with geographic expansion and grow in franchise finance.

Focus on Higher Return Assets Given our scale, expertise and current geographic reach, we believe we are well positioned to further diversify our asset base by prudently seeking higher yielding risk-adjusted assets with a more balanced mix of commercial and consumer loans and appropriate risk discipline.

Driving Additional Fee Income We also intend to transition to a more balanced revenue profile by taking steps to further grow our noninterest income through an expansion of our wealth management, capital markets and cash management services to reduce our overall reliance on net interest income.

Our objective is to increase our ROTCE in the medium term by approximately to basis points through these revenue growth initiatives.

Cost Initiatives: We are focused on streamlining our processes and improving our cost structures. As a result of the initiative launched in late 2013 to improve efficiency and effectiveness, we expect to generate aggregate annualized expense savings of approximately $ million over the medium term. Noninterest expense savings from this initiative are expected to benefit ROTCE in the medium term by approximately to basis points and to achieve a targeted efficiency ratio in the range.

Runoff of Non-Core Portfolio and Existing Pay-Fixed Interest Rate Swaps: Credit trends in our non-core assets have continued to demonstrate improvement, as evidenced by lower

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For information regarding the calculation of ROTCE and efficiency ratio, see Management s Discussion and Analysis of Financial Condition and Results of Operation Principal Components of Operations and Key Performance Metrics Used By Management Key Performance Metrics and Non-GAAP Financial Measures.

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levels of nonperforming loans and net charge-offs. Our proactive risk management efforts have helped reduce our non-core assets by 36% to $3.7 billion at March 31, 2014 from $5.7 billion at December 31, 2012, while net charge-offs in this portfolio decreased by 65% during the first quarter of 2014 compared to the same period in 2013. We expect these favorable trends to continue. In addition, we are running down pay-fixed interest rate swaps that we entered into to hedge fixed-rate assets. These swaps had a notional balance of $1.5 billion at March 31, 2014, compared to $3.7 billion at December 31, 2012. We expect these items to enhance ROTCE by to basis points in the medium term.

Normalization of Tier 1 Common Equity Ratio: Given the robust level of common equity in our capital structure, we intend to continue to pursue various capital actions, subject to regulatory approval, that are expected to normalize our Tier 1 common equity ratio to a level that is more consistent with that of other peer regional banks. We expect lower levels of tangible common equity to facilitate a to basis point improvement to ROTCE over the medium term.

Normalized Rate Environment: Net interest income growth has been challenged by the relatively persistent low interest rate environment. We remain well positioned for a rising rate environment, which would be beneficial to our net interest margin because our asset sensitive balance sheet would react favorably to an increase in both short-term and long-term rates. As of March 31, 2014, the estimated impact on our net interest income over the next twelve months based on a 200 basis point gradual increase in rates would be 6.0%. See Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Governance and Quantitative and Qualitative Disclosures About Risk Market Risk Non-Trading Risk for further details. The benefit to our net interest income from a gradually normalizing rate environment is expected to increase our ROTCE in the medium term by to basis points.

While our strategic plan and our ROTCE target and its components are presented with numerical specificity, and we believe such targets to be reasonable as of the date of this prospectus, given the uncertainties surrounding our assumptions, including possible regulatory restrictions on activities we intend to pursue, there are significant risks that these assumptions may not be realized and thus our goals may not be achieved. Accordingly, our actual results may differ from these targets and the differences may be material and adverse, particularly if actual events adversely differ from one or more of our key assumptions. We caution investors not to place undue reliance on any of these assumptions or targets. See Special Note Regarding Forward-Looking Statements, Risk Factors and Business Business Strategy.

Customer Focus

In addition to the strategies outlined above, we strive to develop stronger and higher value customer relationships through an intense focus on delivering a differentiated experience across all of our distribution platforms, including our robust online, telephone and mobile banking platforms. We expect this focus to continue to drive improved customer loyalty across our businesses and distinguish us from our competitors. As an example of our approach, in January 2014, we launched our new One Deposit Checking product and our $5 Overdraft Pass offering, which exemplify our Consumer Banking s new *Simple. Clear. Personal.* value proposition. We believe this approach will enable us to win, retain and expand customer relationships, as well as increase cross-sell and share of wallet penetration across our business segments.

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Our Parent and Selling Stockholders

Prior to the completion of this offering, we are a wholly owned subsidiary of RBS. We became a wholly owned subsidiary of RBS in 1988. RBS is the holding company of a large global banking and financial services group. Headquartered in Edinburgh, RBS operates in the United Kingdom, the United States and internationally through its two principal subsidiaries, The Royal Bank of Scotland plc and National Westminster Bank Plc (NatWest), both of which are major U.K. clearing banks. Globally, the RBS Group has a diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers. RBS owns all of our outstanding common stock through two wholly owned subsidiaries, RBSG International Holdings Limited, a private limited company organized under the laws of Scotland, and RBS CBFM North America Corporation, a Delaware corporation, which are selling shares and shares, respectively, of our common stock in this offering or and shares, respectively, if the underwriters exercise their option to purchase additional shares in full. RBS also holds approximately $1.0 billion of our outstanding subordinated indebtedness. See Management s Discussion and Analysis of Financial Condition and Results of Operations Capital.

Following completion of this offering, we expect that RBS will indirectly own, through RBSG International Holdings Limited, approximately % of our common stock, assuming no exercise by the underwriters of their option to purchase additional shares, and approximately % of our common stock if the underwriters exercise their option to purchase additional shares in full. As part of its obligations under the European Commission s State Aid Amendment Decision of April 9, 2014, RBS has committed to dispose of its remaining ownership of our common stock by December 31, 2016, with an automatic 12-month extension depending on market conditions. RBS s current intention for disposal of its remaining ownership of our common stock is to sell, over time, such remaining shares in a series of tranches, subject to market conditions and the terms of the lock-up provisions discussed under Underwriting.

As a result of RBS s continued ownership of our common stock following completion of this offering, RBS will continue to have significant control of our business. We and RBS intend to enter into, or have entered into, certain agreements that will provide a framework for our ongoing relationship with the RBS Group. For further information about risks relating to our separation from the RBS Group, including RBS s control over us, see Risk Factors Risks Related to Our Separation from the RBS Group. For more information regarding the agreements setting out the framework for our ongoing relationship with the RBS Group, see Our Relationship with the RBS Group and Certain Other Related Party Transactions.

Following completion of this offering and as part of our transition to a stand-alone company, we expect to incur one-time expenses of approximately $51 million, including branding initiatives, as well as ongoing incremental expenses of approximately $34 million per year. We expect these ongoing costs will include higher local charges associated with exiting worldwide vendor relationships and incremental expenses to support information technology, corporate governance, compliance, regulatory, financial and risk infrastructure that are necessary to enable us to operate as a fully stand-alone public company. For more information regarding incremental expenses relating to our separation from the RBS Group, see Risk Factors Risks Related to Our Separation from the RBS Group Our separation from the RBS Group could adversely affect our business and profitability due to the RBS Group s recognizable brand and reputation and Management s Discussion and Analysis of Financial Condition and Results of Operations Factors Affecting Comparability of Our Results Operating expenses to operate as a fully independent public company.

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Risks

An investment in shares of our common stock involves substantial risks and uncertainties that may adversely affect our business, financial condition and results of operations. Some of the more significant challenges and risks relating to an investment in our common stock include:

- We may not be able to successfully execute our strategic plan or achieve our performance targets;
- Supervisory requirements and expectations, our need to make improvements and devote resources to various aspects of our controls, processes, policies and procedures, and any regulator-imposed limits on our activities, could limit our ability to implement our strategic plan, expand our business, improve our financial performance and make distributions to our stockholders;
- A continuation of the current low interest rate environment or subsequent movements in interest rates may have an adverse effect on our profitability;
- We could fail to attract or retain senior management, other key employees or members of our board of directors, which would adversely affect our business;
- The RBS Group will be our controlling stockholder and its interests may conflict with ours or yours in the future;
- RBS is 79.9% owned by the UK government and its interests may conflict with ours or yours in the future;
- The RBS Group may face the risk of full nationalization or other resolution procedures under the Banking Act 2009, as amended by the UK Financial Services (Banking Reform) Act 2013, which could impact the RBS Group s contractual arrangements with us or result in other material effects on us;
- Any deterioration in national economic conditions could have a material adverse effect on our business, financial condition and results of operations;
- 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;
- Volatility in the global financial markets continued throughout 2013 as a result of the Eurozone crisis and any recurrence of such volatility could have a material adverse effect on our business, financial condition and results of operations;

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, financial condition and results of operations;

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

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

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale, and RBS intends to sell its remaining beneficial ownership of our common stock, although the timing of such sale or sales remains uncertain; and

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If RBS sells a controlling interest in our company to a third party in a private transaction, you may not realize any change-of-control premium on shares of our common stock and we may become subject to the control of a presently unknown third party.

Other Information

We are subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (Federal Reserve Board). We are distinct from and independent of the RBS Group s other businesses in the United States and have our own board of directors (Board) and executive management team. Our principal executive offices are located at One Citizens Plaza in Providence, Rhode Island, and our telephone number is (401) 456-7000.

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THE OFFERING

The offering	common stock offered by the selling stockholders.
Common stock outstanding	shares.
Option to purchase additional shares of common stock to cover over-allotments	shares from the selling stockholders.
Voting rights	Each holder of our common stock will be entitled to one vote per share with respect to all matters on which stockholders generally are entitled to vote, except as otherwise required by law.
Use of proceeds	We will not receive any proceeds from the sale of common stock in the offering; the selling stockholders will receive all of the proceeds from the sale of shares of our common stock.
Dividend policy	We intend to pay quarterly cash dividends on our common stock at an initial amount of approximately $ per share, although any declaration of dividends will be at the discretion of our Board and 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 deems relevant in making such a determination. We are not currently permitted to increase our capital distributions above 2013 levels because the Federal Reserve Board objected to our capital plan, owing to identified deficiencies in our capital planning processes. See Regulation and Supervision Dividends for more information. 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.
	Dividends from our banking subsidiaries are the principal source of funds for the payment of dividends on our common stock. Our banking subsidiaries are subject to certain restrictions that may limit their ability to pay dividends to us. See Dividend Policy for more information.
Risk factors	See Risk Factors for a discussion of risks you should carefully consider before deciding to invest in our common stock.

Controlling stockholder	Prior to the completion of this offering, we are an indirect wholly owned subsidiary of RBS, and have been a part of the RBS Group s consolidated business operations. Upon completion of this offering, RBS will beneficially own approximately % of our outstanding shares of common stock (% if the underwriters over-allotment option is exercised in full). For further information regarding our relationship with the RBS Group in the past and following the offering, see Our Relationship With the RBS Group and Certain Other Related Party Transactions.

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Preemptive and other rights	Purchasers of the shares sold in this offering will not have any preemptive rights. Our common stock is not subject to redemption.
Listing	We intend to apply to list our shares of common stock on under the symbol CFG.

All share information, other than in historical financial results, reflects a 134,831.46-for-1 forward stock split to occur immediately prior to closing of this offering. Unless we specifically state otherwise, the information in this prospectus does not take into account the shares of common stock that may be granted under our equity compensation arrangements.

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SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

We derived the summary consolidated operating data for the years ended December 31, 2013, 2012 and 2011 and the summary consolidated balance sheet data as of December 31, 2013 and 2012 from our audited consolidated financial statements included elsewhere in this prospectus. We derived the summary consolidated balance sheet data as of December 31, 2011 from our consolidated financial statements, which are not included in this prospectus. We derived the summary consolidated operating data for the three months ended March 31, 2014 and 2013 and the summary consolidated balance sheet data as of March 31, 2014 from our unaudited interim consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results expected for any future period.

In our opinion, the 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 months ended March 31, 2014 are not necessarily indicative of those to be expected for the year ending December 31, 2014 or for any future period. You should read the following summary consolidated financial data in conjunction with the sections of this prospectus entitled Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and Selected Statistical Information and our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	For the Three Months Ended March 31,		For the Year Ended December 31,		
	2014	2013	2013	2012	2011
	(dollars in millions, except per share amounts)				
Operating Data:					
Net interest income	$ 808	$ 760	$ 3,058	$ 3,227	$ 3,320
Noninterest income	358	433	1,632	1,667	1,711
Total revenue	1,166	1,193	4,690	4,894	5,031
Provision for credit losses	121	90	479	413	882
Noninterest expense	810	821	7,679	3,457	3,371
Noninterest expense, excluding goodwill impairment(1)	810	821	3,244	3,457	3,371
Income (loss) before income tax expense (benefit)	235	282	(3,468)	1,024	778
Income tax expense (benefit)	69	99	(42)	381	272
Net income (loss)	166	183	(3,426)	643	506
Net income, excluding goodwill impairment(1)	166	183	654	643	506
Net income (loss) per average common share basic and diluted (pro forma)(unaudited)(2)	0.36	0.40	(7.51)	1.41	1.11
Net income (loss) per average common share basic and diluted (actual)	49,087.34	54,139.78	(1,013,131.98)	190,245.51	149,548.13
	0.36	0.40	1.43	1.41	1.11

Net income per average common share basic and diluted, excluding goodwill impairment (pro forma)(unaudited)[(1)(2)]					
Net income per average common share basic and diluted, excluding goodwill impairment (actual)[(1)]	49,087.34	54,139.78	193,122.25	190,245.51	149,548.13
Other Operating Data:					
Return on average common equity[(3)(12)]	3.48%	3.07%	(15.69)%	2.69%	2.19%
Return on average common equity, excluding goodwill impairment[(1)(12)]	3.48%	3.07%	3.00%	2.69%	2.19%
Return on average tangible common equity[(1)(12)]	5.24%	5.49%	(25.91)%	4.86%	4.18%
Return on average tangible common equity, excluding goodwill impairment[(1)(12)]	5.24%	5.49%	4.95%	4.86%	4.18%
Return on average total assets[(4)(12)]	0.54%	0.60%	(2.83)%	0.50%	0.39%
Return on average total assets, excluding goodwill impairment[(1)(12)]	0.54%	0.60%	0.54%	0.50%	0.39%
Return on average total tangible assets[(1)(12)]	0.57%	0.66%	(3.05)%	0.55%	0.43%
Return on average total tangible assets, excluding goodwill impairment[(1)(12)]	0.57%	0.66%	0.58%	0.55%	0.43%
Efficiency ratio[(1)]	69.43%	68.79%	163.73%	70.64%	67.00%
Efficiency ratio, excluding goodwill impairment[(1)]	69.43%	68.79%	69.17%	70.64%	67.00%
Net interest margin[(5)(12)]	2.89%	2.84%	2.85%	2.89%	2.97%

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	As of March 31, 2014	As of December 31, 2013	2012	2011
		(dollars in millions)		
Balance Sheet Data:				
Total assets	$ 126,892	$ 122,154	$ 127,053	$ 129,654
Loans and leases(6)	87,083	85,859	87,248	86,795
Allowance for loan and lease losses	1,259	1,221	1,255	1,698
Total securities	24,804	21,245	19,417	23,352
Goodwill	6,876	6,876	11,311	11,311
Total liabilities	107,450	102,958	102,924	106,261
Deposits(7)	87,462	86,903	95,148	92,888
Federal funds purchased and securities sold under agreements to repurchase	6,080	4,791	3,601	4,152
Other short-term borrowed funds	4,950	2,251	501	3,100
Long-term borrowed funds	1,403	1,405	694	3,242
Stockholders equity	19,442	19,196	24,129	23,393
Other Balance Sheet Data:				
Asset Quality Ratios:				
Allowance for loan and lease losses as a percentage of total loans and leases	1.45%	1.42%	1.44%	1.96%
Allowance for loan and lease losses as a percentage of nonperforming loans and leases	92%	86%	67%	95%
Nonperforming loans and leases as a percentage of total loans and leases	1.57%	1.65%	2.14%	2.06%
Capital ratios:				
Tier 1 capital ratio(8)	13.4%	13.5%	14.2%	13.9%
Total capital ratio(9)	16.0%	16.1%	15.8%	15.1%
Tier 1 common equity ratio(10)	13.4%	13.5%	13.9%	13.3%
Leverage ratio(11)	11.4%	11.6%	12.1%	11.6%

(1) These measures are not recognized under generally accepted accounting principles in the United States, or GAAP. For more information on the computation of these non-GAAP financial measures, see Management s Discussion and Analysis of Financial Condition and Results of Operations Principal Components of Operations and Key Performance Metrics Used By Management Key Performance Metrics and Non-GAAP Financial Measures.

(2) Pro forma basic and diluted earnings per share are unaudited and have been computed to give effect to the 134,831.46-for-1 forward stock split to occur immediately prior to the closing of this offering.

(3) We define Return on average common equity as net income (loss) divided by average common equity.

(4) We define Return on average total assets as net income (loss) divided by total average assets.

(5) We define Net interest margin as net interest income divided by average total interest-earning assets.

(6) Excludes loans held for sale of $1,379 million, $1,254 million, $646 million, and $564 million as of March 31, 2014 and December 31, 2013, 2012 and 2011, respectively.

(7) Excludes deposits held for sale of $5,188 million and $5,277 million as of March 31, 2014 and December 31, 2013, respectively.

(8) We define Tier 1 capital ratio as Tier 1 capital balance divided by total risk-weighted assets as defined under Basel I.

(9) We define Total capital ratio as total capital balance divided by total risk-weighted assets as defined under Basel I.

(10) We define Tier 1 common equity ratio as Tier 1 capital balance, minus preferred stock, divided by total risk-weighted assets as defined under Basel I.

(11) We define Leverage ratio as Tier 1 capital balance divided by quarterly average total assets as defined under Basel I.

(12) Operating ratios for the periods ended March 31, 2014 and 2013 are presented on an annualized basis.

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RISK FACTORS

We are subject to a number of risks potentially impacting our business, financial condition, results of operations and cash flows. As 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 risks, liquidity risks, operational risks, model risks, technology, regulatory and legal risks and strategic and reputational risks. 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 section of this prospectus.

You should carefully consider the following risk factors that may affect our business, future operating results and financial condition, as well as the other information set forth in this prospectus before making a decision to invest in our common stock. If any of the following risks actually occur, our business, financial condition or results of operations would likely be materially adversely affected. In such case, the trading price of our common stock would likely decline due to any of these risks, and you may lose all or part of your investment. The following risks are not the only risks we face. Additional risks that are not presently known or that we presently deem to be immaterial also could have a material adverse effect on our financial condition, results of operations and business.

Risks Related to Our Business

We may not be able to successfully execute our strategic plan or achieve our performance targets.

Our strategic plan, which we began to implement in the second half of 2013, involves five principal elements: (a) increasing revenue in both Consumer Banking and Commercial Banking; (b) enhancing cost reduction efforts across the company; (c) the benefit of a runoff in the non-core portfolio and pay-fixed interest rate swaps; (d) leveraging capital actions aimed at better aligning our capital structure with those of regional bank peers; and (e) the beneficial impact of a normalized rate environment on our asset-sensitive balance sheet. Our future success and the value of our stock will depend, in part, on our ability to effectively implement our strategic plan. There are risks and uncertainties, many of which are not within our control, associated with each element of our plan discussed further below.

In addition, certain of our key initiatives require regulatory approval, which may not be obtained on a timely basis, if at all. Moreover, even if we do obtain required regulatory approval, it may be conditioned on certain organizational changes, such as those discussed below, that could reduce the profitability of those initiatives.

Revenue Generation Component of Strategic Plan, Assumptions and Associated Risks. Our plans to increase revenue involve reallocating resources toward business that will further increase and diversify our revenue base, including by prudently growing higher-return earning assets, identifying and capitalizing on more fee income opportunities and selectively expanding our balance sheet through increased loan origination volume principally in mortgage, small business and auto. Our revenue growth plans are based on a number of assumptions, many of which involve factors that are outside our control. Our key assumptions include:

that we will be able to attract and retain the requisite number of skilled and qualified personnel required to increase our loan origination volume in mortgage, business banking, auto and wealth. The marketplace for skilled personnel is competitive, which means hiring, training and retaining skilled personnel is costly and challenging and we may not be able to increase the number of our loan professionals sufficiently to achieve our loan origination targets successfully;

that we will be able to grow higher-return earning assets and increase fee income in part by means of increased management discipline, industry focus, expansion of target markets, focus on higher-return yielding assets and increased origination efforts;

that we will be able to fund asset growth by growing deposits with our cost of funds increasing at a rate consistent with our expectations;

that we will be able to successfully identify and purchase high-quality interest-earning assets that perform over time in accordance with our projected models;

that our expansion into specialized industries, as well as our efforts to expand nationally in the mid-corporate space, will not materially alter our risk profile from existing business operations in ways that our existing risk models cannot effectively or accurately model;

that there will be no material change in competitive dynamics, including as a result of our seeking to increase market share and enter into new markets (as discussed below, we operate in a highly competitive industry and any change in our ability to retain deposits or attract new customers in line with our current expectations would adversely affect our ability to grow our revenue); and

that software we have recently licensed and implemented throughout our business, including an automated loan origination platform, will function consistent with our expectations.

If one or more of our assumptions prove incorrect, we may not be able to successfully execute our strategic plan, we may never achieve our indicative performance targets and any shortfall may be material.

Cost Savings and Efficiency Component of Strategic Plan and Associated Risks. In order for us to execute our strategic plan successfully, we must implement a number of cost reduction and efficiency improvement initiatives, including streamlining processes, reducing redundancy and improving cost structures, which we believe will allow us to reduce overall expenses. There may be unanticipated difficulties in implementing our efficiency initiatives, and there can be no assurance that we will fully realize our target expense reductions, or be able to sustain any annual cost savings achieved by our efficiency initiative. Reducing costs may prove difficult in light of our efforts to establish and maintain our stand-alone operational and infrastructural capabilities as a banking institution fully separate from the RBS Group, including our rebranding efforts associated with our separation from the RBS Group. Reducing our structural costs may be difficult owing to our efforts to make organizational improvements in risk management and various policies and procedures in order to comply with new regulations and guidance from our regulators. In addition, any significant unanticipated or unusual charges, provisions or impairments, including as a result of any ongoing legal and regulatory proceedings or industry regulatory changes, would adversely affect our ability to reduce our cost structure in any particular period. If we are unable to reduce our cost structure as we anticipate, we may not be able to successfully execute our strategic plan, we may never achieve our indicative performance targets and any shortfall may be material.

Continued Reduction of Our Non-Core Assets. Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. The portfolio has been actively managed since its designation on June 30, 2009. Since that time, we have reduced balances through collections by $8.8 billion, charged off $3.8 billion, transferred $2.8 billion back to the core portfolio and sold $1.2 billion. Our strategic plan includes assumptions that recent favorable trends with respect to our non-core assets will continue, including that the overall credit quality of the portfolio will continue to improve. If the positive credit trends our non-core assets have experienced in recent periods do not continue, our ability to achieve the incremental performance targets we have identified might not be possible, which could prevent us from fulfilling our overall performance target.

Normalization of Our Tier 1 Common Equity Ratio. Our strategic plan requires us to complete capital initiatives that would result in a lower overall Tier 1 common equity ratio. Because our capital structure is subject to extensive regulatory scrutiny, including under the Federal Reserve Board s Comprehensive Capital Analysis and Review, or CCAR, process, we may not able to consummate the capital initiatives required to bring our Tier 1 common equity ratio in line with our expectations. This could prevent us from achieving our ROTCE targets. For more information about risks relating to our ability to obtain the requisite approval from the Federal Reserve Board, see Supervisory requirements and expectations on us as a financial holding company and a bank holding company, our need to make improvements and devote resources to various aspects of our controls, processes, policies and procedures, and any regulator-imposed limits on our activities, could limit our ability to implement our strategic plan, expand our business, improve our financial performance and make capital distributions to our stockholders.

Normalized Rate Environment. Net interest income growth has been challenged by the relatively persistent low interest rate environment. Our strategic plan includes assumptions about rising interest rates in the coming periods. In particular, our strategic plan assumes that interest rates will . We do not control interest rates and there is no guarantee that interest rates will rise consistent with our expectations. If the current low interest rate environment were to continue or if interest rates do not rise as much or as quickly as we expect, then we may not be able to achieve our ROTCE targets. For further information on how we may be affected by changes in interest rates, see Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Governance and Quantitative and Qualitative Disclosures About Risk Market Risk.

Supervisory requirements and expectations on us as a financial holding company and a bank holding company, our need to make improvements and devote resources to various aspects of our controls, processes, policies and procedures, and any regulator-imposed limits on our activities, could limit our ability to implement our strategic plan, expand our business, improve our financial performance and make capital distributions to our stockholders.

As a result of and in addition to new legislation aimed at regulatory reform, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), and the increased capital and liquidity requirements introduced by the U.S. implementation of the Basel III framework, the federal banking agencies, such as the Federal Reserve Board, the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC), as well as the Consumer Financial Protection Bureau (CFPB), have taken a stricter approach to supervising and regulating financial institutions and financial products and services over which they exercise their respective supervisory authorities. We, our two banking subsidiaries and our products and services are all subject to greater supervisory scrutiny and enhanced supervisory requirements and expectations and face significant challenges in meeting them. We expect to continue to face greater supervisory scrutiny and enhanced supervisory requirements in the foreseeable future.

Our two banking subsidiaries are currently subject to consent orders issued by the OCC and the FDIC in connection with their findings of deceptive marketing and implementation of some of our checking account and funds transfer products and services. Among other things, the consent orders require us to remedy deficiencies and develop stronger compliance controls, policies and procedures. We have made progress and continue to make progress in addressing these requirements, but the consent orders remain in place and we are unable to predict when they may be terminated. Separately, CBNA is also making improvements to its compliance management systems, risk management and deposit reconciliation practices in order to address deficiencies in those areas. CBPA is making

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improvements to address deficiencies in its compliance program, policies and procedures and anti-money laundering controls. These efforts require us to make investments in additional resources and systems and also require a significant commitment of managerial time and attention.

The OCC recently determined that CBNA currently does not meet the condition namely, that CBNA must be both well capitalized and well managed, as those terms are defined in applicable regulations, based on certain minimum capital ratios and supervisory ratings, respectively to own a financial subsidiary. A financial subsidiary is permitted to engage in a broader range of activities, similar to those of a financial holding company, than those permissible for a national bank. CBNA has two financial subsidiaries, CCO Investment Services Corp., a registered broker-dealer, and RBS Citizens Insurance Agency, Inc., a dormant entity. CBNA has entered into an agreement with the OCC (the OCC Agreement) pursuant to which it must develop a remediation plan, which must be submitted to the OCC, setting forth the specific actions it will take to bring itself back into compliance with the condition to own a financial subsidiary and the schedule for achieving that objective. Until CBNA satisfactorily addresses the deficiencies, it will be subject to restrictions on its ability to acquire control of or hold an interest in any new financial subsidiary and to commence new activities in any existing financial subsidiary, without the prior consent of the OCC. If CBNA fails to remediate the deficiencies within 180 days from March 13, 2014, or such longer period as the OCC may permit, it may have to divest itself of its financial subsidiaries and comply with any additional limitations or conditions on its conduct as the OCC may impose.

In March 2014, the Federal Reserve Board objected on qualitative grounds to our capital plan submitted as part of the Comprehensive Capital Analysis and Review, or CCAR, process. In its public report entitled Comprehensive Capital Analysis and Review 2014: Assessment Framework and Results, the Federal Reserve Board cited significant deficiencies in our capital planning processes, including inadequate governance, weak internal controls and deficiencies in our practices for estimating revenues and losses under a stress scenario and for ensuring the appropriateness of loss estimates across our business lines in a specific stress scenario. Although the Federal Reserve Board acknowledged that bank holding companies such as ours that are new to the CCAR process are subject to different expectations, our weaknesses were considered serious enough to warrant the Federal Reserve Board s objection based on its qualitative assessment of our capital planning process. As a result, we are not permitted to increase our capital distributions above 2013 levels and are required to resubmit our capital plan to the Federal Reserve Board, unless the Federal Reserve Board determines otherwise. If we resubmit our plan, we may determine that we need to modify our proposed capital distributions. In any event, we cannot assure you that the Federal Reserve Board will not object to any resubmitted plan or that, even if it does not object to it, our planned capital distributions will not be significantly modified.

In addition to all of the foregoing, as part of our and our banking subsidiaries regular examination process, from time to time we and our banking subsidiaries may become, and currently are, subject to prudential restrictions on our activities. The restrictions that apply to CBNA are described above. Similarly, under the Bank Holding Company Act of 1956 (the Bank Holding Company Act), we may not be able to engage in certain categories of new activities or acquire shares or control of other companies other than in connection with internal reorganizations.

In order to remedy all of these weaknesses and meet these significant regulatory and supervisory challenges, we need to make substantial improvements to our processes, systems and controls. We expect to continue to dedicate significant resources and managerial time and attention and to make significant investments in enhanced processes, systems and controls. This in turn may increase our operational costs and limit our ability to implement aspects of our strategic plan or otherwise pursue certain business opportunities. Moreover, if we are unsuccessful in remedying these weaknesses and meeting the enhanced supervisory requirements and expectations that apply to us and our banking subsidiaries, we could remain subject to existing restrictions or become subject to additional restrictions

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on our activities, informal (non-public) or formal (public) supervisory actions or public enforcement actions. Any such actions or restrictions, if and in whatever manner imposed, would likely increase our costs and could 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, results of operations or financial condition.

A continuation of the current low interest rate environment or subsequent movements in interest rates may have an adverse effect on our profitability.

Historically, and in the near-to-medium term, we anticipate that net interest income 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. Our net interest income was $808 million for the three months ended March 31, 2014 and $3.1 billion for the year ended December 31, 2013. Changes in interest rates can have a material effect on many areas of our business, including the following:

Net Interest Income. In recent years, it has been the policy of the Federal Reserve Board and the U.S. Treasury to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of U.S. Treasury and mortgage-backed securities. As a result, yields on securities we have purchased, and market rates on the loans we have originated, have been at levels lower than were available prior to 2008. Consequently, the average yield on our interest-earning assets has decreased during the recent low interest rate environment. If a low interest rate environment persists, our net interest income may further decrease. This would be the case because our ability to lower our interest expense has been limited at these interest rate levels, while the average yield on our interest-earning assets has continued to decrease. Moreover, if our floating rate interest-earning assets do not reprice faster than our interest-bearing liabilities, our net interest income could be adversely affected. If our net interest income further decreases, this could have an adverse effect on our profitability.

Deposit Costs. Our net interest margin would narrow if our cost of funding increases without a correlative increase in the interest we earn from loans and investments. Because we rely extensively on deposits to fund our operations, our cost of funding would increase if there is an increase in the interest rate we are required to pay our customers to retain their deposits. This could occur, for instance, if we are faced with competitive pressures to increase rates on deposits. In addition, if the interest rates we are required to pay for other sources of funding (for example, in the interbank or capital markets) increases, our cost of funding would increase. If any of the foregoing risks occurs, our net interest margin would narrow unless there was a correlative increase in the interest we earn from our loans and investments. Although our assets currently reprice faster than our liabilities (which would result in a benefit to net interest income as interest rates rise), the benefit from rising rates could be less than we assume, which may have an adverse effect on our profitability.

Loan Volume and Delinquency. Increases in interest rates may decrease customer demand for loans as the higher cost of obtaining credit may deter customers from new loans. Further, higher interest rates might also lead to an increased number of delinquent loans and defaults, which would impact the value of our loans.

Value of Our Mortgage Servicing Rights. As a residential mortgage servicer, we have a portfolio of mortgage servicing rights (MSRs). MSRs are subject to interest rate risk in that their fair value will fluctuate as a result of changes in the interest rate environment. When interest rates fall, borrowers are generally more likely to prepay their mortgage loans by refinancing them at a lower rate. As the likelihood of prepayment increases, the fair value of MSRs can decrease. Decrease in the fair value below the carrying value of MSRs will reduce earnings in the period in which the decrease occurs.

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 Federal Reserve Board, affect interest income and interest expense. Although

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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, changes in interest rates still may have an adverse effect on our profitability.

If our assumptions regarding borrower 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.

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 key cornerstone of our strategic plan involves the hiring of a large number 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, competitively 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 a sufficient number of appropriately skilled 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.

Governmental scrutiny with respect to matters relating to compensation and other business practices in the financial services industry has increased dramatically in the past several years and has resulted in more aggressive and intense regulatory supervision and the application and enforcement of more stringent standards. For example, in June 2010, the Federal Reserve Board and other federal banking regulators jointly issued comprehensive final guidance designed to ensure that incentive compensation policies do not undermine the safety and soundness of banking organizations by encouraging employees to take imprudent risks. The recent financial crisis and the current political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators and elected officials. Future legislation or regulation or government views on compensation may result in us altering compensation practices in ways that could adversely affect our ability to attract and retain talented employees.

In addition to complying with U.S. laws relating to compensation, we are also required to comply with United Kingdom (UK) and European Union (EU) remuneration requirements for so long as we remain subject to the supervision of the UK Prudential Regulatory Authority (PRA), which supervision will continue until the PRA determines that RBS Group ceases to control us. As a result of the implications of the EU Capital Requirements Directive IV (CRD IV), certain of our most senior employees, including our CEO, may not receive variable compensation in excess of 100% of fixed compensation (200% with shareholder approval) starting with performance year 2014. Because shareholder approval is not being sought by RBS, we anticipate that a 100% limitation will apply for 2014. We intend to maintain competitive total compensation levels for affected employees, although it is possible that the structure of our compensation packages may not be considered in line with our peers.

Our ability to meet our obligations, and the cost of funds to do so, depend on our ability to access sources of liquidity and the particular sources available to us.

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

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number of factors, including an over-reliance on a particular source of funding (including, for example, short-term and overnight funding), 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 a loss of confidence by customers in us or the banking sector generally, increasing competitive pressures for retail or corporate customer deposits, changes in interest rates and returns on other investment classes, which could result in a significant outflow of deposits within a short period of time. To the extent that in the future there is heavy competition among U.S. banks for retail customer deposits, this competition may increase the cost of procuring new 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.

In addition, volatility in the interbank funding market can negatively impact our ability to fund our operations. For example, funding in the interbank markets, a traditional source of unsecured short-term funding, was severely disrupted throughout the global economic and financial crisis. If market disruption or significant volatility returns to the interbank or wholesale funding market, our ability to access capital in these funding markets could be materially impaired. Additionally, other factors outside our control, such as an operational problem that affects third parties, could impair our ability to access capital markets or create an unforeseen outflow of cash or deposits. Our inability to access adequate funding, whether from bank deposits, the interbank funding market or capital markets, would constrain our ability to make new loans, to meet our existing lending commitments and ultimately jeopardize our overall liquidity and capitalization.

Maintaining a diverse and appropriate funding strategy for our assets consistent with our wider strategic 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, reflected in 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 to reduce our funding commitments.

A reduction in our credit ratings, which are based on a number of factors, including the credit ratings of RBS or the RBS Group, 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 the financial strength of and other factors relating to RBS and the RBS Group, as well as conditions affecting the financial services industry generally. Any downgrade in our ratings would likely increase our borrowing costs and could limit our access to capital markets and adversely affect our business. For example, a ratings downgrade could adversely affect our ability to sell or market in the capital markets certain of our securities, including subordinated debt, engage in certain longer-term and derivatives transactions and retain our customers, particularly corporate customers who need a minimum rating threshold in order to invest or deposit. 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.

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Any downgrade in the credit rating of RBS, which will own % of our stock after completion of this offering (or % if the underwriters option to purchase additional shares of common stock is exercised in full), or the RBS Group may negatively impact the rating agencies evaluation of us and our business which could ultimately result in a downgrade of our credit ratings. The credit ratings of the RBS Group, along with a number of other European financial institutions, were downgraded during the course of 2011 and 2012 as part of the rating agencies review of systemic support assumptions incorporated into bank ratings and the likelihood, in the case of banks located in the United Kingdom, that the UK government is more likely in the future to make greater use of its regulatory tools to allow burden sharing among bank creditors. Rating agencies continue to evaluate the rating methodologies applicable to European banks, including the RBS Group, and any change in such methodologies could ultimately impact our credit ratings. Separately, adverse changes in the credit ratings of the United Kingdom could adversely affect the credit ratings of the RBS Group which may ultimately have an adverse impact on our credit ratings. In December 2012, Standard & Poor s placed the United Kingdom s AAA credit rating on credit watch, with negative outlook and, in February 2013, Moody s downgraded the United Kingdom s credit rating one notch to Aa1.

On November 29, 2011, Standard & Poor s lowered its long-term debt rating of RBS to A- and, at the same time, lowered our long-term debt rating to A. On June 22, 2012, Moody s downgraded the long-term bank deposit rating of our banking subsidiaries to A3 following its downgrade of RBS on June 21, 2012. On November 11, 2013, Standard & Poor s lowered its ratings on 20 of CBNA s letter of credit-backed U.S. public finance issues. This action followed Standard & Poor s November 7, 2013 downgrade of the long-term debt of RBS to BBB+ and its simultaneous lowering of our long-term debt rating to BBB+. On November 3, 2013, Fitch downgraded our long-term debt rating to BBB+ following RBS s announcement of its intention to fully divest us by 2016. Although Moody s confirmed the long-term bank deposit rating of our banking subsidiaries on March 13, 2014, its ratings outlook is negative. On May 7, 2014, Standard & Poor s lowered our stand-alone credit profile to a- from a. These ratings could be further downgraded as a result of a number of factors, such as our financial strength and economic conditions generally. Under current rating methodologies, the ratings could also be further downgraded due to RBS s continued ownership interest in us, reflecting the potential adverse effects of challenges faced by the RBS Group, including uncertainty around political developments in the United Kingdom and Europe, or in connection with our separation from the RBS Group, if the rating agencies perceive that we would not benefit from the support of the RBS Group. Any further reductions in our credit ratings or those of our banking subsidiaries could adversely affect our access to liquidity, our competitive position, increase our funding costs or otherwise have a material adverse effect on our business, financial condition and results of operations.

We are subject to certain risks related to originating and selling mortgages and we may be required to repurchase mortgage loans or indemnify mortgage loan purchasers, which could adversely impact our business, financial condition and results of operations.

We originate and often sell mortgage loans. When we sell mortgage loans, whether as whole loans or pursuant to a securitization, we are required to make customary representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. Our loan sale agreements require us to repurchase or substitute mortgage loans in the event of certain breaches of these representations or warranties. In addition, we may be required to repurchase mortgage loans as a result of borrower fraud or in the event of early payment default of the borrower on a mortgage loan. Likewise, we are required to repurchase or substitute mortgage loans if we breach certain representations or warranties in connection with our securitizations, whether or not we were the originator of the loan. While in many cases we may have a remedy available against certain parties, often these may not be as broad as the remedies available to a purchaser of mortgage loans against us, and we face the further risk that such parties may not have the financial capacity to satisfy remedies that may be available to us. Therefore, if a purchaser enforces its remedies against us, we

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may not be able to recover our losses from third parties. We have received repurchase and indemnity demands from purchasers in the past, which have resulted in an increase in the amount of losses for repurchases. In particular, between January 1, 2009 and March 31, 2014, we received approximately $139 million in repurchase demands and $97 million in indemnification payment requests in respect of loans originated, for the most part, since 2003. Of those claims presented, $74 million was paid to repurchase residential mortgage loans, and $32 million was incurred in indemnification costs to make investors whole. We repurchased mortgage loans totaling $35 million and $13 million for the years ended December 31, 2013 and 2012, respectively, and $10 million and $21 million for the three months ended March 31, 2014 and 2013, respectively. We incurred indemnification costs of $12 million and $5 million for the years ended December 31, 2013 and 2012, respectively, and $6 million and $3 million for the three months ended March 31, 2014 and 2013, respectively. We cannot estimate what the future level of repurchase demands will be or our ultimate exposure, and cannot give any assurance that the historical experience will or will not continue in the future. It is possible that the volume of repurchase demands will increase, which could have a material adverse effect on our business, financial condition and results of operations.

We face risks as a servicer of loans. We may be terminated as a servicer or master servicer, be required to repurchase a mortgage loan or reimburse investors for credit losses on a mortgage loan, or incur costs, liabilities, fines and other sanctions if we fail to satisfy our servicing obligations, including our obligations with respect to mortgage loan foreclosure actions.

We act as servicer or master servicer for mortgage loans included in securitizations and for unsecuritized mortgage loans owned by investors. As a servicer or master servicer for those loans, we have certain contractual obligations to the securitization trusts, investors or other third parties, including, in our capacity as a servicer, foreclosing on defaulted mortgage loans or, to the extent consistent with the applicable securitization or other investor agreement, considering alternatives to foreclosure (such as loan modifications, short sales and deed-in-lieu of foreclosures), and, in our capacity as a master servicer, overseeing the servicing of mortgage loans by the servicer. Generally, our servicing obligations as a servicer or master servicer described above are set by contract, for which we receive a contractual fee. However, the costs to perform contracted-for services has been increasing, which reduces our profitability. In addition, we serve as a servicer for government sponsored enterprises (GSEs) under servicing guides. The GSEs can amend their servicing guides, which can increase the scope or costs of the services we are required to perform without any corresponding increase in our servicing fee. Further, the CFPB has issued two regulations that amended the mortgage servicing provisions of Regulation Z and Regulation X, which became effective on January 10, 2014 and which may further increase the scope and costs of services we are required to perform, including as it relates to servicing loans that we own. In addition, there has been a significant increase in state laws that impose additional servicing requirements that increase the scope and cost of our servicing obligations.

If we commit a material breach of our obligations as servicer or master servicer, we may be subject to termination if the breach is not cured within a specified period of time following notice, which can generally be given by the securitization trustee or a specified percentage of security holders, causing us to lose servicing income. In addition, we may be required to indemnify the securitization trustee against losses from any failure by us, as a servicer or master servicer, to perform our servicing obligations or any act or omission on our part that involves willful misfeasance, bad faith or gross negligence. For certain investors and/or certain transactions, we may be contractually obligated to repurchase a mortgage loan or reimburse the investor for credit losses incurred on the loan as a remedy for servicing errors with respect to the loan. If we experience increased repurchase obligations because of claims that we did not satisfy our obligations as a servicer or master servicer, or increased loss severity on such repurchases, we may have to materially increase our repurchase reserve.

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We rely on the mortgage secondary market and GSEs for some of our liquidity.

We sell most of the mortgage loans we originate to reduce our credit risk and to provide funding for additional loans. We rely on GSEs to purchase loans that meet their conforming loan requirements. Strategically, we may originate and hold nonconforming loans on-balance sheet for investment purposes, or from time to time, we will rely on other capital markets investors to purchase nonconforming loans (i.e., loans that do not meet GSE requirements). Since the onset of the global economic and financial crisis, investor demand for nonconforming loans has fallen sharply, increasing credit spreads and reducing the liquidity of those loans. In response to the reduced liquidity in the capital markets, we may retain more nonconforming loans, negatively impacting reserves, or we may originate fewer mortgages, which would negatively impact revenue. When we retain a loan not only do we keep the credit risk of the loan but we also do not receive any sale proceeds that could be used to generate new loans. However, we receive net interest margin as our income stream as loan payments are received on a monthly basis in lieu of sale proceeds. Depending on balance sheet capacity, a persistent lack of liquidity could limit our ability to fund and thus originate new mortgage loans, reducing the fees we earn from originating and servicing loans. In addition, we cannot provide assurance that GSEs will not materially limit their purchases of conforming loans due to capital constraints or change their criteria for conforming loans (e.g., maximum loan amount or borrower eligibility). We note that proposals have been presented to reform the housing finance market in the United States, including the role of the GSEs in the housing finance market. The extent and timing of any such regulatory reform regarding the housing finance market and the GSEs, as well as any effect on our business and financial results, are uncertain.

We are subject to increased risk of credit losses associated with HELOCs originated prior to the global financial and economic crisis.

During the years prior to the global financial and economic crisis, financial institutions, including us, originated a significant number of HELOCs. The terms of HELOCs generally provided for the deferral of borrowers obligations to begin to repay principal until a specified future date. As of March 31, 2014, approximately 34% of our $16.6 billion HELOC portfolio, or $5.7 billion in drawn balances, and $4.2 billion in undrawn balances, were subject to a payment reset or balloon payment between April 1, 2014 and December 31, 2017 (including $382 million in balloon balances where full payment is due at the end of a ten-year interest only draw period) since a portion of this portfolio was originally structured with a 10-year interest-only draw period followed by a single lump-sum payment. Although we launched a program in September 2013 to manage the exposure by providing heightened outreach to borrowers, there remains a risk of increased credit losses as borrowers become obligated to make principal and interest payments. For further information regarding the expected HELOC payment shock, see Management s Discussion and Analysis of Financial Condition and Results of Operations Key Factors Affecting Our Business HELOC Payment Shock.

Our financial performance may be adversely affected by deteriorations 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. For example, we have exposure to certain business sectors and geographic markets that were weakened by the global economic and financial crisis. 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 and our use of models presents risks to our risk management framework.

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 a strategic initiative 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 Quantitative and Qualitative Disclosures About Risk. 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.

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. For example, we experienced certain technical issues relating to our market risk measurement processes when we began incorporating trade level detail for foreign exchange contracts in 2013. Despite rigorous pilot testing of our processes, during the initial phase of implementation our processes failed to incorporate certain positions we maintained to offset client exposure, which led to an immaterial overstatement of foreign exchange currency rate risk positions during 2013 compared to our position at year end. We have adjusted our processes and have experienced no further issues. 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 allowance for loan and lease losses to increase.

The preparation of 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 allowance for loan and lease losses. The allowance for loan and lease losses is a reserve established through a provision for loan and lease losses charged to expense and represents our estimate of losses within the existing portfolio of loans. The allowance is necessary to reserve for estimated loan and lease losses and risks inherent in the loan portfolio. The level of the allowance 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 allowance for loan and lease losses 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 allowance for loan and lease losses. In addition, bank regulatory agencies periodically review our allowance for loan and lease losses and may require an increase in the allowance for loan and lease losses 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 allowance for loan and lease losses that is, if the allowance for loan and lease losses is inadequate we will need additional loan and lease loss provisions to increase the allowance for loan and lease losses. 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.

We could also sustain credit losses that are significantly higher than the amount of our allowance for loan and lease losses, and therefore have an adverse impact on earnings. Higher credit losses could arise for a variety of reasons. A severe downturn in the economy would generate increased charge-offs and a need for higher reserves. In particular, a severe decrease in housing prices or spike in unemployment would cause higher losses and a larger allowance for loan and lease losses, particularly in the residential real estate secured portfolios. Within the residential real estate portfolios, we have HELOCs for which the end of draw is happening over the next two years. If there is a spike in interest rates, these customers will not only have to deal with an increased or first time principal payment but also an increase in interest payments, potentially leading to larger losses and allowance for loan and lease losses. For more information about risks related to HELOCs, see We are subject to increased risk of credit losses associated with HELOCs originated prior to the global financial and economic crisis. While we believe that our allowance for loan and lease losses was adequate on March 31, 2014, there is no assurance that it will be sufficient to cover all incurred loan and lease credit losses, particularly if economic conditions worsen. In the event of deterioration in economic conditions, we may be required to increase reserves in future periods, which would reduce our earnings.

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The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgments and estimates that may change over time or may ultimately not turn out to be accurate.

Under GAAP, we recognize at fair value: (i) financial instruments classified as held for trading or designated at fair value through profit or loss; (ii) financial assets classified as available for sale; and (iii) derivatives. Generally, to establish the fair value of these instruments, we rely on quoted market prices. If such market prices are not available, we rely on internal valuation models that utilize observable market data and/or independent third-party pricing. For example, observable market data may not be available for certain individual financial instruments or classes of financial instruments, such as venture capital investments. In such circumstances, we utilize complex internal valuation models to establish fair value; these models require us to make assumptions, judgments and estimates regarding matters that are inherently uncertain. When practical, we would supplement internal models using independent price verification in order to lessen the uncertainties in our models. These assumptions, judgments and estimates are periodically updated to reflect changing facts, trends and market conditions. The resulting change in the fair values of the financial instruments may have a material adverse effect on our earnings and financial condition.

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; 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 use 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.

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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, our need to make improvements and devote resources to various aspects of our controls, processes, policies and procedures, and any regulator-imposed limits on our activities, could limit our ability to implement our strategic plan, expand our business, improve our financial performance and make capital distributions to our stockholders.

Cyber-attacks, distributed denial of service attacks and other cyber-security matters, if successful, could adversely affect how we conduct our business.

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 breach and extract funds directly from customers or our accounts. We have been subject to a number of attacks historically. The attempts to breach sensitive customer data, such as account numbers and social security numbers, are less frequent but could present significant reputational, legal and regulatory costs to us if successful.

Recently, there has been a series of distributed denial of service attacks on financial services companies, including us. Distributed denial of service attacks are designed to saturate the targeted online network with excessive amounts of network traffic, resulting in slow response times, or in some cases, causing the site to be temporarily unavailable. Generally, these attacks are conducted to interrupt or suspend a company s access to Internet service. The attacks can adversely affect the performance of a company s website and in some instances prevent customers from accessing a company s website. We are implementing certain technology protections such as Customer Profiling and Step-Up Authentication to be in compliance with the Federal Financial Institutions Examination Council (FFIEC) Authentication in Internet Banking Environment (AIBE) guidelines. However, cyber threats are rapidly evolving and we may not be able to anticipate or prevent all such attacks. In the event that a cyber-attack is successful, our business, financial condition or results of operations may be adversely affected.

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 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 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.

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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) certain components and services relating to our online banking system rely on data communications networks operated by unaffiliated third parties, (ii) many of our applications are hosted or maintained by third parties, including our Commercial Loan System, which is hosted and maintained by Automated Financial Systems, Inc. and (iii) our core deposits system is maintained by Fidelity Information Services, Inc. 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. 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, including the RBS Group.

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.

Negative publicity could result, for example, from an allegation or determination that we have failed to comply with regulatory or legislative requirements, from failure in business continuity or performance of our information technology systems, loss of customer data or confidential information, fraudulent activities, unsatisfactory service and support levels or insufficient transparency or disclosure of information. Negative publicity adversely affecting our brands or reputation could also result from misconduct or malpractice by partners or other third parties with whom we have relationships. In particular, because of our relationship with the RBS Group, negative publicity about the RBS Group could have a negative effect on us. Adverse publicity, governmental scrutiny, any pending future investigations by regulators or law enforcement agencies involving us, any of our affiliates or the RBS Group can also have a negative impact on our reputation and business, which could adversely affect our results of operations.

Any damage to our brands or reputation could cause existing customers or other third parties to terminate their business relationships with us and potential customers or other third parties to be reluctant to do business with us. Such damage to our brands or reputation could cause disproportionate damage to our business, even if the negative publicity is factually inaccurate or unfounded. Furthermore, negative publicity could result in greater regulatory scrutiny and influence market or rating agencies perceptions of us, which could make it more difficult for us to maintain our credit rating. The occurrence of any of these events could have an adverse effect on our business, financial condition and results of operations.

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 East Providence, Rhode Island, and our recovery data center in Medford, Massachusetts unusable. The distance between the data center locations (approximately 45 miles) provides diversity in resources, but not sufficient diversity in the event of a catastrophe as described above. Although we are building a new, out-of-region backup data center in North Carolina, scheduled for completion in 2015, we do not currently have a backup data center outside New England.

Our principal communications and information systems are housed in the East Providence primary datacenter and our operations are concentrated in the New England, Mid-Atlantic and Midwest regions. If a natural disaster, severe weather, power outage or other event were to occur in New England or if we were subject to a terrorist attack prior to the opening of the North Carolina recovery data center that prevented us from using all or a significant portion of our communications and information systems, damaged critical infrastructure or otherwise disrupted our operations, it may be difficult or, in certain cases, impossible for us to continue our business for a substantial period of time. Although we have implemented disaster recovery and business continuity plans, these plans may prove inadequate in the event of a disaster or similar event that seriously compromises our information systems. We may incur substantial expenses as a result of any limitations relating to our disaster recovery and business continuity plans, which, particularly when taken together with the geographic concentration of our operations, could have a material adverse effect on our business.

An inability to realize the value of our deferred tax assets could adversely affect operating results.

Our net deferred tax assets (DTAs) are subject to an evaluation of whether it is more likely than not that they will be realized for financial statement purposes. In making this determination, we consider all positive and negative evidence available, including the impact of recent operating results, as well as potential carryback of tax to prior years taxable income, reversals of existing taxable temporary differences, tax planning strategies and projected earnings within the statutory tax loss carryover period. We have determined that the DTAs are more likely than not to be realized at March 31, 2014 (except for $136 million related to state DTAs for which a valuation allowance was established). If we were to conclude that a significant portion of the DTAs were not more likely than not to be realized, the required valuation allowance could adversely affect our financial condition and results of operations.

We maintain a significant investment in projects that generate tax credits, which we may not be able to fully utilize.

At March 31, 2014, we maintained an investment of approximately $268 million in entities for which we receive allocations of tax credits, which we utilize to offset our taxable income. We accrued $6 million and $14 million in credits for the quarter ended March 31, 2014 and the year ended December 31, 2013, respectively. As of March 31, 2014, we had a tax credit carryforward of approximately $33 million. Substantially all of these tax credits are related to development projects that are subject to ongoing compliance requirements over certain periods of time to fully realize their value. If these projects are not operated in full compliance with the required terms, the tax credits could be subject to recapture or restructuring. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

We may have exposure to greater than anticipated tax liabilities.

The tax laws applicable to our business activities, including the laws of the United States and other jurisdictions, are subject to interpretation. The taxing authorities in the jurisdictions in which we operate may challenge our tax positions, which could increase our effective tax rate and harm our financial

position and results of operations. In addition, our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, or by changes in tax laws, regulations, or accounting principles. We are subject to regular review and audit by U.S. federal and state tax authorities. Any adverse outcome of such a review or audit could have a negative effect on our financial position and results of operations. In addition, the determination of our provision for income taxes and other tax liabilities requires significant judgment by management. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.

We are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. As a subsidiary of RBS, we are currently subject to the requirements of the Sarbanes-Oxley Act, and as a U.S. bank holding company, we are also subject to the FDIC Part 363 Annual Report rules, which incorporates certain items from the Sarbanes-Oxley Act Section 404 into FDICIA requirements. In addition, beginning with our second annual report on Form 10-K, we will be required to furnish a report by management on the effectiveness of our internal control over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act. Our independent registered public accounting firm is required to express an opinion as to the effectiveness of our internal control over financial reporting beginning with our second annual report on Form 10-K. The process of designing, implementing and testing the internal control over financial reporting required to comply with this obligation is time consuming, costly and complicated. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner or to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources.

We depend on the accuracy and completeness of information about clients and counterparties.

In deciding whether to extend credit or enter into other transactions with clients and counterparties, we rely on information furnished by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. If any of such information is incorrect, then the creditworthiness of our clients and counterparties may be misrepresented, which would increase our credit risk and expose us to possible write-downs and losses.

We may not be able to successfully manage our intellectual property and may be subject to infringement claims.

We rely on a combination of owned and licensed trademarks, service marks, trade names, logos and other intellectual property rights. Third parties may challenge, invalidate, infringe or misappropriate our intellectual property, or such intellectual property may not be sufficient to provide us with

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competitive advantages, which could result in costly redesign efforts, discontinuance of certain services or other competitive harm. For example, words contained in our trademarks and trade names (including the word Citizens) are also found in the trade names of a significant number of third parties, including other banks. This has resulted in, and may in the future result in, challenges to our ability to use our trademarks and trade names in particular geographical areas or lines of business. Such challenges could impede our future expansion into new geographic areas or lines of business and could limit our ability to realize the full value of our trademarks and trade names. We may have to litigate to enforce or determine the scope and enforceability of our intellectual property rights, which is expensive, could cause a diversion of resources and may not prove successful. Existing use by others of trademarks and trade names that are similar to ours could limit our ability to challenge third parties when their use of such marks or names may cause consumer confusion, negatively affect consumers perception of our brand and products or dilute our brand identity. In addition, certain aspects of our business and our services rely on technologies licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties on reasonable terms or at all. The loss or diminution of our intellectual property protection or the inability to obtain third party intellectual property could harm our business and ability to compete.

We may also be subject to costly litigation in the event our services infringe upon or otherwise violate a third party s proprietary rights. Third parties may have, or may eventually be granted, intellectual property rights, including trademarks, that could be infringed by our services or other aspects of our business. Third parties have made, and may make, claims of infringement against us with respect to our services or business. As we rebrand CFG and our banking subsidiaries following the consummation of this offering and expand our business, the likelihood of receiving third party challenges or claims of infringement related to our intellectual property may increase. Any claim from third parties may result in a limitation on our ability to use the intellectual property subject to these claims. Even if we believe that intellectual property related claims are without merit, defending against such claims is time consuming and expensive and could result in the diversion of the time and attention of our management and employees. Claims of intellectual property infringement also might require us to redesign affected services, enter into costly settlement or license agreements, pay costly damage awards, or face a temporary or permanent injunction prohibiting us from marketing or selling certain of our services. Any intellectual property related dispute or litigation could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Separation from the RBS Group

RBS will be our controlling stockholder and its interests may conflict with ours or yours in the future.

Immediately following this offering, RBS will beneficially own approximately % of our common stock (or % if the underwriters option to purchase additional shares of common stock is exercised in full). As a result, the RBS Group will have significant power to control our affairs and policies including with respect to the election of directors (and through the election of directors the appointment of management), the entering into of mergers, sales of substantially all of our assets and other extraordinary transactions. In particular, under the separation and shareholder agreement that we intend to enter into with RBS in connection with this offering (the Separation Agreement), for so long as RBS maintains beneficial ownership of our outstanding stock in excess of certain thresholds, we will be required to obtain the consent of RBS to complete certain significant transactions, including change of control transactions, entrance into material joint ventures or similar corporate transactions, issuance of common stock (other than pursuant to our equity incentive plans), issuance or the guarantee of indebtedness in excess of certain thresholds, the termination of our Chief Executive Officer or Chief Financial Officer and certain other significant transactions. The interests of the RBS Group may not align with our or your interests and we may not be able to manage our business in a manner that is in your best interests, which could cause the price of our stock to decline.

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RBS is 79.68% owned by the UK government and its interests may conflict with ours or yours in the future.

Following placing and open offers in December 2008 and in April 2009, Her Majesty s Treasury (HM Treasury) owned approximately 70.3% of the enlarged ordinary share capital of RBS. In December 2009, RBS issued a further £25.5 billion of new capital to HM Treasury. This new capital took the form of B shares, which do not generally carry voting rights at general meetings of ordinary stockholders but are convertible into ordinary shares. Following the issuance of the B shares, HM Treasury s holding of ordinary shares of the company remained at 70.3%, although its economic interest rose to 84.4%. As of May 30, 2014, HM Treasury held 63.16% of the voting rights in RBS and had an economic interest of 79.68%.

HM Treasury s stockholder relationship with RBS is managed on its behalf by UK Financial Investments Limited (UKFI) and, although HM Treasury has indicated that it intends to respect the commercial decisions of RBS and that RBS will continue to have its own independent board of directors and management team determining its own strategy, should its current intentions change, HM Treasury s position as a majority stockholder (and UKFI s position as manager of this stockholding) means that HM Treasury or UKFI may be able to exercise a significant degree of influence over RBS. The manner in which HM Treasury or UKFI exercises HM Treasury s rights as majority stockholder could give rise to conflict between the interests of HM Treasury and the interests of our stockholders, and RBS may make decisions impacting our operations and the value of our common stock based on UK policy imperatives rather than traditional stockholder economic considerations. We cannot accurately predict whether any restrictions and limitations imposed on RBS on account of HM Treasury s ownership position, or the implementation of RBS s restructuring plan agreed to with HM Treasury, will have a negative effect on our businesses and financial flexibility or result in conflicts between the interests of RBS and our interests. In addition, it is difficult for us to predict whether any changes to, or termination of, HM Treasury s current relationship with RBS will have any effect on our business. We also note that we cannot predict the possible effect of RBS not satisfying its commitment to divest CFG as agreed with HM Treasury, for instance, by having a remaining ownership interest in CFG and its subsidiaries beyond any deadline agreed with HM Treasury.

The RBS Group and its UK bank subsidiaries are subject to the provisions of the UK Banking Act 2009, as amended by the UK Financial Services (Banking Reform) Act 2013, which includes special resolution powers including nationalization and bail-in.

Under the Banking Act 2009, substantial powers have been granted to UK banking regulators as part of a special resolution regime. These powers enable such regulators to deal with and stabilize certain deposit-taking UK incorporated institutions that are failing, or are likely to fail, to satisfy the FSMA threshold conditions (within the meaning of section 41 of the Financial Services and Markets Act 2000, or the FSMA, which are the conditions that a relevant entity must satisfy in order to obtain its authorization to perform regulated activities). The special resolution regime consists of three stabilization options: (i) transfer of all or part of the business of the relevant entity and/or the securities of the relevant entity to a private sector purchaser, (ii) transfer of all or part of the business of the relevant entity to a bridge bank wholly owned by the Bank of England and (iii) temporary public ownership (nationalization) of the relevant entity. If the UK regulators determine that the RBS Group has failed, or is likely to fail, to satisfy the FSMA threshold conditions, then HM Treasury could decide to take the RBS Group into temporary public ownership pursuant to the powers granted under the Banking Act 2009, and it may then take various actions in relation to any securities without the consent of holders of the securities. In each case, the UK banking regulators would have the authority to modify contractual arrangements of the RBS Group and disapply or modify laws (with possible retrospective effect) to enable their powers under UK law to be used effectively.

Among the changes introduced by the Financial Services (Banking Reform) Act 2013, the Banking Act 2009 was amended to insert a bail-in option as part of the powers of the UK regulators. This option will come into force on such date as shall be stipulated by HM Treasury (HM Treasury has indicated an intention to apply the bail-in provisions from January 1, 2015, which is ahead of the deadline of January 1, 2016 that is set out in the European Bank Recovery and Resolution Directive (BRRD)). The bail-in option will be introduced as an additional power available to the Bank of England to enable it to recapitalize a failed institution by allocating losses first to its shareholders and then to eligible unsecured creditors in a manner that seeks to respect the hierarchy of claims in liquidation. The bail-in option includes the power to cancel a liability, to modify the form of a liability (including the power to convert a liability from one form to another) or to provide that a contract under which the institution has a liability is to have effect as if a specified right had been exercised under it, each for the purposes of reducing, deferring or canceling the liabilities of the bank under resolution, as well as to transfer a liability. The Financial Services (Banking Reform) Act 2013 is consistent with the range of tools that European Member States will be required to make available to their resolution authorities under the BRRD, although some amendments are expected to the current UK bail-in provisions to ensure that they are fully compliant with the requirements of the BRRD.

If the UK regulators were to take such stabilization actions with respect to the RBS Group due to a failure, or likely failure, by the RBS Group to satisfy the FSMA threshold conditions, it could result in the creation, modification or canceling of certain of our contractual arrangements that we intend to enter into with the RBS Group prior to the completion of this offering, including the Transitional Services Agreement and Separation Agreement. In addition, the UK regulators could seek to impose additional obligations on us, including the provision of services to third parties who may purchase some or all of the RBS Group s assets. The UK regulators could also materially modify the RBS Group s restructuring efforts, including the acceleration of its disclosed intention to sell its remaining shares of our common stock. Any of these actions could have a material adverse effect on our business, contractual obligations and the value of our common stock.

Conflicts of interest and disputes may arise between the RBS Group and us that could be resolved in a manner unfavorable to us.

Questions relating to conflicts of interest and actual disputes may arise between the RBS Group and us in a number of areas relating to our past and ongoing relationships. Areas in which conflicts of interest or disputes between the RBS Group and us could arise include, but are not limited to, the following:

Competing business activities. The RBS Group is a large global banking and financial services group principally engaged in the business of providing banking and financial services. In the ordinary course of its business activities, the RBS Group may engage in activities where their interests conflict with our interests or those of our stockholders. Our amended and restated certificate of incorporation will provide that none of the RBS Group, any of its affiliates or any director who is not employed by us or his or her affiliates will have any duty to refrain from engaging, directly or indirectly, in the same business activities or similar business activities or lines of business in which we operate. See Description of Capital Stock. The RBS Group also may pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. As a result, our future competitive position and growth potential could be adversely affected.

Cross officerships, directorships and stock ownership. The ownership interests of our directors or executive officers in the common stock of RBS or service as a director or officer of both RBS and us could create, or appear to create, conflicts of interest when directors and executive officers are faced with decisions that could have different implications for the two companies. For example, these decisions could relate to (i) the nature, quality and cost of

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services rendered to us by the RBS Group, (ii) disagreement over the desirability of a potential business or acquisition opportunity or business plans, (iii) employee retention or recruiting or (iv) our dividend policy.

Separation Agreement. We will enter into a Separation Agreement immediately prior to the completion of this offering that will govern the relationship between the RBS Group and us following this offering. The Separation Agreement will provide the RBS Group with certain governance rights over our business, as well as obligate us to comply with certain covenants including certain information rights, access privileges and confidentiality matters. Disagreements regarding the rights and obligations of the RBS Group or us under the Separation Agreement could create conflicts of interest for certain of our directors and officers, as well as actual disputes that may be resolved in a manner unfavorable to us. See Our Relationship with the RBS Group and Certain Other Related Party Transactions Relationship with the RBS Group Separation and Stockholder Agreement.

Transitional Services Agreement. We will enter into a Transitional Services Agreement with the RBS Group for the continued provision of certain services by the RBS Group to us (including specified information technology, operations, compliance, business continuity, legal, human resources, back office and web services) and by us to the RBS Group. The services that are to be provided under the Transitional Services Agreement generally will continue to be provided until December 31, 2016, although certain services may have an earlier termination date or be terminated prior to that time. Interruptions to or problems with services provided under the Transitional Services Agreement could result in conflicts between us and the RBS Group that increase our costs both for the processing of business and the potential remediation of disputes. See Our Relationship to the RBS Group and Certain Other Related Party Transactions Relationship with the RBS Group Transitional Services Agreement.

Commercial Matters. In addition to the agreements that we intend to enter into as part of our separation from the RBS Group, we expect to continue certain of our commercial relationships with the RBS Group for which we intend to continue or enter into one or more commercial matters agreements. The principal commercial activities to be covered by such agreements include certain swap agreements and foreign exchange risk contracts with the RBS Group for the purpose of reducing our exposure to interest rate fluctuations or to meet the financing needs of our customers, as well as commercial and other referral arrangements related to transaction services, debt capital markets, underwriting of loan syndications, commercial mortgage securitizations, asset finance and leasing and corporate credit card services. Despite our current expectation, there is no guarantee that the RBS Group will continue to provide such commercial services to us or that the prices at which they are willing to provide such services will remain consistent with historical periods. If the RBS Group were to terminate any of these arrangements, our financial results would be adversely affected. Moreover, disagreements may arise between us and the RBS Group regarding the provision or quality of any such services rendered, which may materially adversely affect this portion of our business. See Our Relationship with the RBS Group and Certain Other Related Party Transactions Relationship with the RBS Group Commercial Matters.

Business opportunities. Our directors nominated by RBS and the RBS Group may have or make investments in other companies that may compete with us. Our Amended and Restated Certificate of Incorporation will provide that, to the fullest extent permitted by law, none of RBS or any of its affiliates or any director who is not employed by us or his or her affiliates will have any duty to refrain from (i) engaging in a corporate opportunity in the same or similar lines of business in which we or our affiliates now engage or propose to engage or (ii) otherwise competing with us or our affiliates. As a result of these charter provisions, our future competitive position and growth potential could be adversely affected. See Description of Capital Stock.

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Our separation from the RBS Group could adversely affect our business and profitability due to the RBS Group s recognizable brand and reputation.

Prior to the completion of this offering, as a wholly owned indirect subsidiary of RBS, we have marketed our products and services using the RBS brand name and logo. We believe the association with the RBS Group has provided us with preferred status among certain of our customers, vendors and other persons due to the RBS Group s globally recognized brand, perceived high-quality products and services and strong capital base and financial strength.

Our separation from the RBS Group could adversely affect our ability to attract and retain customers, which could result in reduced sales of our products. In connection with this offering, although we expect to enter into a trademark license agreement pursuant to which we will be granted a limited license to use certain trademarks (including the daisywheel logo) for 10 years following the completion of the offering, we will be required under the agreement to remove the RBS brand name from all of our products and services by the time RBS beneficially owns less than 50% of our outstanding common stock (but in no event earlier than October 1, 2015), and we will lose the right to use the RBS trademarks in connection with the marketing of any product or service once we rebrand and cease using RBS trademarks in connection with such product or service. See Our Relationship with the RBS Group and Certain Other Related Party Transactions Relationship with the RBS Group Trademark License Agreement. After the consummation of this offering, we intend to change the legal names of any of our subsidiaries that continue to include RBS and to continue operational and legal work to rebrand CFG and its banking subsidiaries. The process of changing all marketing materials, operational materials, signage, systems, and legal entities containing RBS to our new brand name will take approximately 14 months and cost between $14 million and $16 million, excluding any incremental advertising and customer communication expenses. We expect to shift the majority of our advertising and marketing budget to our new brand progressively as the different legal entities complete their individual brand name changes; we expect the shift in advertising and marketing investment to be completed no later than July 31, 2015. As a result of this rebranding, some of our existing customers may choose to stop doing business with us, which could increase customer withdrawals. In addition, other potential customers may decide not to purchase our products and services because we no longer will be a part of the RBS Group. We may also receive decreased referrals of business from the RBS Group. Our separation from the RBS Group could prompt some third parties to reprice, modify or terminate their distribution or vendor relationships with us. We cannot accurately predict the effect that our separation from the RBS Group will have on our business, customers or employees.

The risks relating to our separation from the RBS Group could materialize or evolve at any time, including:

- immediately upon the completion of this offering, when RBS s beneficial ownership in our common stock will decrease to approximately % (approximately % if the underwriters option to purchase additional shares is exercised in full);
- when RBS reduces its beneficial ownership in our common stock to a level below 50%; and
- when we cease using the RBS name or the daisywheel logo in our sales and marketing materials, particularly when we deliver notices to our distributors and customers that the names of some of our subsidiaries will change.

Any failure by us to successfully replicate or replace certain functions, systems and infrastructure provided by the RBS Group prior to this offering could have a material adverse effect on us.

We will need to replicate or replace certain functions, systems and infrastructure to which we will no longer have the same access after this offering, including services we will receive pursuant to the

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Transitional Services Agreement. We will also need to make infrastructure investments in order to operate without the same access to the RBS Group s existing operational and administrative infrastructure. Any failure to successfully implement these initiatives or to do so in a timely manner could have an adverse effect on us.

The RBS Group currently performs or supports certain corporate functions for our operations, including investor relations, advertising and brand management, corporate audit, certain risk management functions, corporate insurance, corporate governance and other services. There is no assurance that, following the completion of this offering, these services will be sustained at the same levels as when we were receiving such services from the RBS Group or that we will obtain the same benefits. When we begin to operate these functions independently, if we do not have our own adequate systems and business functions in place, or are unable to obtain them from other providers, we may not be able to operate our business effectively or at comparable costs and our profitability may decline.

Also, we expect to make an investment of approximately $ million in our systems to complete the migration of technological services following our separation from the RBS Group. In particular, we will separate our shared global network and where services such as corporate risk, back office, audit and human resources are being provided by the RBS Group, we will establish those services for CFG. These initiatives may not be completed on the expected timetable or within the expected budget and may not provide the system functionality or performance levels required to support the current and future needs of our business. Further, the systems and services provided to us by the RBS Group under the Transitional Services Agreement will need to be replaced on or before the date of the expiration of the Transitional Services Agreement. The terms on which we purchase these new systems and services, or the functionality of the systems themselves, may be inferior to those of the systems provided by the RBS Group or those available elsewhere in the market and, in relation to third-party suppliers, may be on terms that are less favorable than the terms on which services were previously provided by third parties to the RBS Group, and from which we have historically benefited and will continue to benefit during the period of the Transitional Services Agreement. For more information regarding the Transition Services Agreement, see Our Relationship with the RBS Group and Certain Other Related Party Transactions Relationship with the RBS Group Transitional Services Agreement.

Any failure by the RBS Group to deliver the services to be provided under the Transitional Services Agreement could have a material adverse effect on our business, financial condition and results of operations.

In connection with our separation from the RBS Group, we intend to enter into a Transitional Services Agreement with the RBS Group for the continued provision of certain services to us for a specified period. Services provided for under the Transitional Services Agreement include certain information technology, operations, compliance, business continuity, legal, human resources, back office and web services. In particular, we will rely on the RBS Group to provide hosting, support and maintenance services that are critical to maintaining the level of support for the ongoing needs of our business. Although the majority of the systems run under the Transitional Services Agreement are independent of the RBS Group s other systems, any technical problems occurring within the RBS Group could have an adverse effect on us. As with all of our systems, interruptions to or problems with our systems and services provided under the Transitional Services Agreement or as a result of migration from the RBS Group infrastructure could cause material damage to our business and reputation. If the RBS Group fails to provide or procure the services envisaged or provide them in a timely manner, it could have a material adverse effect on our business, financial condition and results of operations.

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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 that could affect us include:

- reduced consumer spending;
- lower wage income levels;
- declines in the market value of residential or commercial real estate;
- inflation or deflation;
- fluctuations in the value of the U.S. dollar;
- volatility in short-term and long-term interest rates; and
- higher bankruptcy filings.

These scenarios could require us to charge off a higher percentage of loans and increase 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. In particular, although the ongoing general economic recovery has positively impacted the real estate market, the fundamentals within the real estate sector, including asset values, high vacancy rates and rent values, remain relatively weak compared to prior to the global economic and financial crisis. Should the recovery of real estate asset values, reduction in vacancies and improvement in rents be interrupted for an extended period of time, it could have a material adverse effect on our business, financial condition and results of operations.

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 the following:

Non-banking financial institutions. The ability of these institutions to offer services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures.

Securities firms and insurance companies. These companies, if they elect to become financial holding companies, can offer virtually any type of financial service. This may significantly change the competitive environment in which we conduct our business.

Competitors that have greater financial resources. Some of our larger competitors, including certain national and international banks that have a significant presence in our market area,

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may have greater capital and resources, higher lending limits and may offer products and services that we do not. We cannot predict the reaction of our customers and other third parties with respect to our financial or commercial strength relative to our competition, including our larger competitors.

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.

Volatility in the global financial markets continued throughout 2013 as a result of the Eurozone crisis and any recurrence of such volatility could have a material adverse effect on our business, financial condition and results of operations.

The effects of the Eurozone crisis, which began in late 2009 as part of the global economic and financial crisis, continued to impact the global financial markets throughout 2013. Numerous factors continued to fuel the Eurozone crisis, including continued high levels of government debt, the undercapitalization and liquidity problems of many banks in the Eurozone and relatively low levels of economic growth. These factors made it difficult or impossible for some countries in the Eurozone to repay or refinance their debt without the assistance of third parties. As a combination of austerity programs, debt write-downs and the European Central Bank s commitment to restore financial stability to the Eurozone and the finalization of the primary European Stability Mechanism bailout fund, in 2013 interest rates began to fall and stock prices began to increase. Although these trends have helped to stabilize the effects of the Eurozone crisis, the underlying causes of the crisis have not been completely eliminated. Should the economic recovery in the United States be adversely impacted by a return in volatility in the global financial markets caused by a relapse in the Eurozone crisis, loan and asset growth and liquidity conditions at U.S. financial institutions, including us, may deteriorate. Moreover, until RBS divests its interest in us, adverse trends in the Eurozone could increase investor concern or, even if not accurate, stimulate perceptions of funding difficulties for our business because RBS is based in the United Kingdom and has significant exposure to European economies. If any of these factors were to materialize, it could have a material adverse effect on our business, financial condition and results of operations.

Further downgrades to the U.S. government s credit rating, or the credit rating of its securities, by one or more of the credit ratings agencies could have a material adverse effect on general economic conditions, as well as our operations, earnings and financial condition.

On August 5, 2011, Standard & Poor s cut the U.S. government s sovereign credit rating of long-term U.S. federal debt from AAA to AA+ while also keeping its outlook negative. Moody s also lowered its outlook to Negative on August 2, 2011, and Fitch lowered its outlook to Negative on November 28, 2011. During 2013, both Moody s and Standard & Poor s revised their outlook from Negative to Stable, and on March 21, 2014, Fitch revised its outlook from Negative to Stable. Further downgrades of the U.S. government s sovereign credit rating, and the perceived creditworthiness of U.S. government-related obligations, could impact our ability to obtain funding that is collateralized by affected instruments. Such downgrades could also affect the pricing of funding when it is available. A downgrade may also adversely affect the market value of such instruments. A downgrade of the sovereign credit ratings of the U.S. government or the credit ratings of related institutions, agencies or instrumentalities would significantly exacerbate the other risks to which we are subject and any related adverse effects on its business, financial condition and results of operations.

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

Financial services institutions that deal with each other are 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 Federal Home Loan Banks (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 Federal Reserve Board. In addition, CBNA is subject to comprehensive regulation, supervision and examination by the OCC and CBPA is subject to comprehensive regulation, supervision and examination by the FDIC and the PA Banking Department. 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 action 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. As such, we are allowed to engage in certain financial activities in which a bank holding company is not otherwise permitted to engage. However, to maintain our financial holding company status, we (and all of our subsidiaries) must be well capitalized and well managed. If we cease to meet these capital and management requirements, there are many penalties we would be faced with, including (i) the Federal Reserve Board may impose limitations or conditions on the conduct of our activities, and (ii) we 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 Federal Reserve Board. If a company does not return to compliance within 180 days, which period may be extended, the Federal Reserve Board may require divestiture of that company s depository institutions.

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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. In some instances, we are not permitted to publicly disclose these actions. In addition, as part of our regular examination process, our and our banking subsidiaries respective regulators may advise us or our banking subsidiaries 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 could have a material adverse effect on our business and earnings.

We are heavily regulated by bank and other regulatory agencies at the federal and state levels. This regulatory oversight is established to protect depositors, the FDIC s Deposit Insurance Fund, and the banking system as a whole, not security holders. Changes to statutes, regulations, rules or policies including the interpretation or implementation of statutes, regulations, rules or policies could affect us in substantial and unpredictable ways including 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 to offer competing financial services and products.

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. The capital adequacy and liquidity standards that we must meet include the following:

Current capital requirements. Under regulatory capital adequacy guidelines and other regulatory requirements, CFG and its banking subsidiaries must meet guidelines that include quantitative measures of assets, liabilities and certain off-balance sheet items, subject to qualitative judgments by regulators about components of qualifying capital, risk weightings and other factors. We are regulated as a bank holding company and subject to consolidated regulatory capital requirements administered by the Federal Reserve. Our banking subsidiaries are subject to similar capital requirements, administered by the OCC in the case of CBNA and by the FDIC in the case of CBPA. Failure by us or one of our banking subsidiaries to maintain its status as adequately capitalized would lead to regulatory sanctions and limitations and could lead the federal banking agencies to take prompt corrective action. Furthermore, a failure by our banking subsidiaries to be well capitalized under applicable regulatory guidelines could lead to higher FDIC assessments.

Basel III. The U.S. Basel III final rule and provisions in the Dodd-Frank Act, including the Collins Amendment, will increase capital requirements for banking organizations such as us. Consistent with the Basel Committee s Basel III capital framework, the U.S. Basel III final rule includes a new minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of 4.5% and a Common Equity Tier 1 capital conservation buffer of greater than 2.5% of risk-weighted assets. We have established capital ratio targets that align with U.S. regulatory

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expectations under fully phased-in Basel III rules. Although we currently have capital ratios that exceed these minimum levels and a strategic plan to keep them at least at these levels, failure to maintain the capital conservation buffer would result in increasingly stringent restrictions on our ability to make dividend payments and other capital distributions and pay discretionary bonuses to executive officers. As to us, the U.S. Basel III final rule will phase in over time beginning on January 1, 2015, and will become fully effective on January 1, 2019.

Capital Plans. We are required to submit an annual capital plan to the Federal Reserve Board. The capital plan must include an assessment of our expected uses and sources of capital over a forward-looking planning horizon of at least nine quarters, a detailed description of our process for assessing capital adequacy, our capital policy and a discussion of any expected changes to our business plan that are likely to have a material impact on our capital adequacy or liquidity. Based on a qualitative and quantitative assessment, including a supervisory stress test conducted as part of the CCAR process, the Federal Reserve Board will either object to our capital plan, in whole or in part, or provide a notice of non-objection to us by March 31 of a calendar year. If the Federal Reserve Board objects to a capital plan, we may not make any capital distribution other than those with respect to which the Federal Reserve Board has indicated its non-objection. Although we were permitted to continue capital actions at a level consistent with those executed in 2013, the Federal Reserve Board objected to certain qualitative aspects of our 2014 capital plan and we will be required to resubmit our plan unless the Federal Reserve Board determines otherwise.

Stress Tests. In addition to capital planning, we and our banking subsidiaries are subject to capital stress testing requirements imposed by the Dodd-Frank Act that will likely require us to hold more capital than the minimum requirements applicable to us. The stress testing requirements are designed to show that we can meet our capital requirements even under stressed economic conditions.

Liquidity Coverage Ratio. The federal banking regulators also evaluate our liquidity as part of the supervisory process. In October 2013, the U.S. federal banking regulators issued the Notice of Proposed Rulemaking (NPR) for the U.S. implementation of the Liquidity Coverage Ratio (LCR). This NPR included a modified version of the Basel Committee s Liquidity Coverage Ratio (LCR) in the United States, which would apply to large bank holding companies such as us. As compared to the Basel Committee s version of the LCR, the modified version of the LCR 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 begins on January 1, 2015, and ends on January 1, 2017.

See the Regulation and Supervision section of this prospectus for further discussion of the capital adequacy and liquidity standards to which we are subject.

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

Federal Reserve Board 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 Federal Reserve Board 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:

Any extensions of credit from us to our banking subsidiaries that are included in the relevant bank s capital would be subordinate in right of payment to depositors and certain other indebtedness of such subsidiary banks.

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 certain circumstances one of our banking subsidiaries could be assessed for losses incurred by the other. In addition, in the event of impairment of the capital stock of one of our banking subsidiaries, we, as our banking subsidiary s stockholder, could be required to pay such deficiency.

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

As a bank holding company, we are a separate and distinct legal entity from our banking subsidiaries: CBNA and CBPA. We typically receive substantially all of our revenue from dividends from our banking subsidiaries. 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 our banking subsidiaries may pay. For example:

CBNA is required by federal law to obtain the prior approval of the OCC for the payment of cash dividends if they exceed prescribed limits, including if retained earnings are negative or the cumulative undistributed earnings for the current and previous two years are negative.

CBNA may pay dividends only to the extent that retained net profits (including the portion transferred to surplus) exceed bad debts (as defined by regulation).

CBPA may only pay dividends out of accumulated net earnings and dividends may not be declared unless surplus is at least equal to contributed capital.

Neither CBNA nor CBPA may pay a dividend if, in the opinion of the applicable federal regulatory agency, either is engaged in or is about to engage in an unsafe or unsound practice, which would include a dividend payment that would reduce either bank s capital to an inadequate level.

As a result of the goodwill impairment recognized by CBNA in the second quarter of 2013, CBNA s retained earnings position declined to a negative $175.2 million as of March 31, 2014. As a result, CBNA must obtain specific prior approval from the OCC before making a capital distribution. For CBNA, we expect the cumulative undistributed earnings measure to remain negative through 2015, and, as a result, OCC approval of capital distributions will be required even after positive retained earnings are available. Since the goodwill impairment in 2013, the OCC has approved each request by CBNA to return permanent capital of approximately 30% of its prior quarter after-tax net income to us in lieu of paying a common dividend from retained earnings. However, CBNA may not rely on past or current approvals as a guarantee of future approvals. Under the Pennsylvania Banking Code of 1965, as amended (the PA Code), CBPA is restricted from paying dividends in excess of accumulated net earnings. As of March 31, 2014, CBPA s accumulated net earnings were $371.3 million.

In addition, on February 18, 2014, the Federal Reserve Board approved a final rule implementing certain enhanced prudential standards for bank holding companies with $50 billion or more in total consolidated assets. The rules will subject a foreign banking organization with at least $50 billion in non-branch U.S. assets as of June 30, 2015 to various requirements, including a requirement to establish by July 1, 2016 a U.S. intermediate holding company (an IHC) to hold all of the foreign banking organization s interests in U.S. companies which it controls for U.S. bank regulatory purposes. An IHC will have to comply with U.S. risk-based capital, leverage, liquidity and risk-management

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requirements, as well as other regulations. Although the timing of our separation from the RBS Group is uncertain, the RBS Group will be subject to the enhanced prudential standards for foreign banking organizations, including the requirement to create an IHC, owing in part to the fact that we are an indirect subsidiary of RBS. If we become a subsidiary of the RBS Group IHC, even if we receive dividends from our banking subsidiaries, our ability to pay dividends or make capital distributions could be constrained by the IHC s capital requirements, which will be affected by any interests it holds in other of the RBS Group s U.S. companies.

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

We 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 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. For example, in April 2013, our banking subsidiaries consented to the issuance of orders by the OCC and the FDIC (the Consent Orders). In the Consent Orders (which are publicly available and will remain in effect until terminated by the regulators), our banking subsidiaries neither admitted nor denied the regulators findings that they had engaged in deceptive marketing and implementation of the bank s overdraft protection program, checking rewards programs and stop-payment process for pre-authorized recurring electronic fund transfers. Under the Consent Orders, our banking subsidiaries paid a total of $10 million in civil monetary penalties and are required to develop plans to provide restitution to affected customers (the amount of which is anticipated to be approximately $8 million), cease and desist any operations in violation of Section 5 of the Federal Trade Commission Act and submit to the regulators periodic written progress reports regarding compliance with the Consent Orders. For more information regarding ongoing significant regulatory actions in which we are involved, see Business Legal and Regulatory Proceedings.

In regulatory actions, such as those referred to above, it is inherently difficult to determine whether any loss is probable or even possible or to 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. 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 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. We currently have, among others, pending legal actions alleging violations under the Fair Labor Standards Act and certain state fair wage laws. 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

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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 are involved, see Business Legal and Regulatory Proceedings.

In disputes and legal proceedings, such as those referred to above, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. We cannot predict with certainty if, how or when such proceedings will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial or indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any proceeding. Adverse judgments in litigation or adverse regulatory actions could have a material adverse effect on our business, financial condition and results of operations.

The Dodd-Frank Act has changed and will likely continue to substantially change the legal and regulatory framework under which we operate our business.

On July 21, 2010, President Obama signed into law the Dodd-Frank Act, which has changed and will likely continue to substantially change the legal and regulatory framework under which we operate. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial-services industry, addressing, among other things, (i) systemic risk, (ii) capital adequacy, (iii) consumer financial protection, (iv) interchange fees and (v) mortgage lending practices. A significant number of the provisions of the Dodd-Frank Act still require extensive rulemaking and interpretation by regulatory authorities. In several cases, authorities have extended implementation periods and delayed effective dates. Accordingly, in many respects the ultimate impact of the Dodd-Frank Act and its effects on the U.S. financial system and on us will not be known for an extended period of time.

The following are some of the current provisions of the Dodd-Frank Act that may affect our operations:

- Creation of the CFPB with centralized authority for consumer protection in the banking industry.
- New limitations on federal preemption.
- Application of heightened capital, liquidity, single counterparty credit limits, stress testing, risk management and other enhanced prudential standards.
- Changes to the assessment base for deposit insurance premiums.
- Creation of a new framework for the regulation of over-the-counter derivatives and new regulations for the securitization market and the strengthening of the regulatory oversight of securities and capital markets by the SEC.

Some of these and other major changes under the Dodd-Frank Act could materially impact the profitability of our business, the value of assets we hold or the collateral available for coverage under our loans, require changes to our business practices or force us to discontinue businesses and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk.

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The Dodd-Frank Act s provisions and related rules that restrict bank interchange fees may negatively impact our revenues and earnings.

Pursuant to the Dodd-Frank Act, the Federal Reserve Board adopted rules effective October 1, 2011, limiting the interchange fees that may be charged with respect to electronic debit transactions. Interchange fees, or swipe fees, are charges that merchants pay to us and other credit card companies and card-issuing banks for processing electronic payment transactions. Since taking effect, these limitations have reduced our debit card interchange revenues and have created meaningful compliance costs. Additional limits may further reduce our debit card interchange