

HDFC BANK LTD
Form 6-K
March 25, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of March 2013

Commission File Number 001-15216

HDFC BANK LIMITED

(Translation of registrant's name into English)

HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai. 400 013, India

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(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b) (1): Yes No

Note: Regulation S-T Rule 101(b) (1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b) (7): Yes No

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's home country), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- Not Applicable.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HDFC BANK LIMITED
(Registrant)

Date: March 25, 2013

By /s/ Sashidhar Jagdishan
Name: Sashidhar Jagdishan
Title: Chief Financial Officer

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EXHIBIT INDEX

The following documents (bearing the exhibit number listed below) are furnished herewith and are made a part of this Report pursuant to the General Instructions for Form 6-K.

Exhibit I

Description

Financial Statements of HDFC Bank Limited prepared in accordance with US GAAP as of and for the six month periods ended September 30, 2011 and 2012.

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Exhibit I

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HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2012	As of September 30, 2012 (unaudited)	September 30, 2012 (unaudited)
	(In millions, except number of shares)		
ASSETS:			
Cash and cash equivalents	Rs. 188,043.0	Rs. 237,372.7	US\$ 4,485.5
Term placements	150,096.5	167,432.3	3,163.9
Investments held for trading, at fair value	77,043.4	51,174.8	967.0
Investments available for sale, at fair value (includes restricted investments of Rs. 544,169.2 and Rs. 474,178.6 (US\$ 8,960.2), respectively)	807,080.4	826,504.8	15,618.0
Securities purchased under agreements to resell	20,868.3	242.7	4.6
Loans (net of allowance of Rs. 27,906.9 and Rs. 32,788.1 (US\$ 619.6), respectively)	2,006,374.3	2,371,880.0	44,820.1
Accrued interest receivable	26,645.5	29,982.7	566.6
Property and equipment, net	24,960.9	26,656.1	503.7
Intangible assets, net	4,074.0	2,918.8	55.2
Goodwill	74,937.9	74,937.9	1,416.1
Other assets	191,031.5	205,332.9	3,880.0
Total assets	Rs. 3,571,155.7	Rs. 3,994,435.7	US\$ 75,480.7
LIABILITIES AND SHAREHOLDERS EQUITY:			
Liabilities:			
Interest-bearing deposits	Rs. 2,012,057.9	Rs. 2,258,238.2	US\$ 42,672.7
Non-interest-bearing deposits	452,991.7	479,441.0	9,059.7
Total deposits	2,465,049.6	2,737,679.2	51,732.4
Securities sold under repurchase agreements	70,000.0	95,000.0	1,795.2
Short-term borrowings	112,642.8	117,449.8	2,219.4
Accrued interest payable	51,935.9	66,982.1	1,265.7
Long-term debt	178,366.6	253,798.7	4,795.9
Accrued expenses and other liabilities	296,568.1	300,177.5	5,672.3
Total liabilities	Rs. 3,174,563.0	Rs. 3,571,087.3	US\$ 67,480.9
Commitments and contingencies (see note 14)			
Shareholders equity:			
Equity shares: par value Rs. 2.0 each; authorized 2,750,000,000 shares; issued and outstanding 2,346,688,270 shares and 2,361,698,240 shares, as of March 31, 2012 and September 30, 2012, respectively	Rs. 4,693.4	Rs. 4,723.4	US\$ 89.3
Additional paid-in capital	244,564.7	251,704.3	4,756.3
Retained earnings	99,761.6	114,200.3	2,158.0
Statutory reserve	53,248.3	53,248.3	1,006.2
Accumulated other comprehensive income (loss)	(7,212.8)	(2,196.2)	(41.5)

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Total HDFC Bank Limited shareholders equity	395,055.2	421,680.1	7,968.3
Noncontrolling interest in subsidiaries	1,537.5	1,668.3	31.5
Total shareholders equity	396,592.7	423,348.4	7,999.8
Total liabilities and shareholders equity	Rs. 3,571,155.7	Rs. 3,994,435.7	US\$ 75,480.7

See accompanying notes to condensed consolidated financial statements

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HDFC BANK LIMITED AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	2011	Six months ended Sept, 30, 2012 (In millions)	2012
Interest and dividend revenue:			
Loans	Rs. 97,153.2	Rs. 129,119.6	US\$ 2,439.9
Trading securities	1,946.9	2,334.8	44.1
Available for sale securities	26,452.4	33,188.1	627.1
Other	3,878.0	4,748.1	89.7
Total interest and dividend revenue	129,430.5	169,390.6	3,200.8
Interest expense:			
Deposits	58,634.2	78,878.7	1,490.5
Short-term borrowings	5,207.2	7,169.6	135.5
Long-term debt	6,063.2	8,642.0	163.3
Other	102.8	213.6	4.0
Total interest expense	70,007.4	94,903.9	1,793.3
Net interest revenue	59,423.1	74,486.7	1,407.5
Provision for credit losses	6,897.5	7,436.1	140.5
Net interest revenue after provision for credit losses	52,525.6	67,050.6	1,267.0
Non-interest revenue, net:			
Fees and commissions	19,980.5	24,774.9	468.2
Trading securities gain/(loss), net	(463.7)	83.3	1.6
Realized gain/(loss) on sales of available for sale securities, net	(193.3)	446.5	8.4
Other than temporary impairment losses on available for sale securities	(487.9)	(1,504.2)	(28.4)
Foreign exchange transactions	7,550.9	4,998.0	94.4
Derivatives gain/(loss), net	(3,491.5)	110.8	2.1
Other, net	115.0	75.9	1.4
Total non-interest revenue, net	23,010.0	28,985.2	547.7
Total revenue, net	75,535.6	96,035.8	1,814.7
Non-interest expense:			
Salaries and staff benefits	21,898.9	26,814.3	506.7
Premises and equipment	7,687.1	8,200.3	155.0
Depreciation and amortization	2,555.1	3,110.3	58.8

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Administrative and other		11,969.3		17,157.0		324.2
Amortization of intangible assets		1,165.7		1,155.2		21.8
Total non-interest expense		45,276.1		56,437.1		1,066.5
Income before income tax expense		30,259.5		39,598.7		748.2
Income tax expense		10,168.6		13,242.3		250.2
Net income before noncontrolling interest	Rs.	20,090.9	Rs.	26,356.4	US\$	498.0
Less: Net income attributable to noncontrolling interest		82.1		130.8		2.5
Net income attributable to HDFC Bank Limited	Rs.	20,008.8	Rs.	26,225.6	US\$	495.5
Per share information:						
Earnings per equity share basic	Rs.	8.58	Rs.	11.14	US\$	0.21
Earnings per equity share diluted	Rs.	8.50	Rs.	11.10	US\$	0.20
Per ADS information (where 1 ADS represents 3 shares):						
Earnings per ADS basic	Rs.	25.74	Rs.	33.42	US\$	0.63
Earnings per ADS diluted	Rs.	25.50	Rs.	33.30	US\$	0.60

See accompanying notes to condensed consolidated financial statements

Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	2011	Six months ended Sept, 30, 2012 (In millions)	2012
	Rs.	Rs.	US\$
Net income before noncontrolling interest	20,090.9	26,356.4	498.0
Other comprehensive income, net of tax:			
Foreign currency translation reserve:			
Net unrealized gain (loss) arising during the period	141.2	18.4	0.4
Reclassification of net gain (loss) included in net income			
Available for sale securities:			
Net unrealized gain (loss) arising during the period [net of tax Rs. (1,560.4) and Rs. 2,419.9, respectively]	(3,435.5)	5,114.2	96.6
Net unrealized gain (loss) reclassified to earnings [net of tax Rs. (320.7) and Rs. (55.7), respectively]	(644.8)	(116.0)	(2.2)
Other comprehensive income, net of tax	(3,939.1)	5,016.6	94.8
Total comprehensive income	16,151.8	31,373.0	592.8
Less: Comprehensive income attributable to noncontrolling interest	82.1	130.8	2.5
Comprehensive income attributable to HDFC Bank Limited	Rs. 16,069.7	Rs. 31,242.2	US\$ 590.3

See accompanying notes to condensed consolidated financial statements

Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	2011	Six months ended September 30, 2012		2012
		(in millions)		
Cash flows from operating activities:				
Net income before noncontrolling interest	Rs. 20,090.9	Rs. 26,356.4		US\$ 498.0
Adjustment to reconcile net income to net cash provided by operating activities				
Provision for credit losses	6,897.5	7,436.1		140.5
Depreciation and amortization	2,555.1	3,110.3		58.8
Amortization of intangibles	1,165.7	1,155.2		21.8
Amortization of deferred acquisition costs	2,061.4	2,930.5		55.4
Amortization of premium (discount) on investments	216.2	(169.4)		(3.2)
Other than temporary impairment of investment	487.9	1,504.2		28.4
Provision for deferred income taxes	(1,114.8)	(2,361.8)		(44.6)
Share-based compensation expense	1,883.3	2,682.9		50.7
Net realized (gain) loss on sale of available for sale securities	193.3	(446.5)		(8.4)
(Gain) loss on disposal of property and equipment, net	(2.8)	4.0		0.1
Exchange (gain) loss	(2,840.7)	(1,767.2)		(33.3)
Net change in:				
Investments held for trading	(37,464.1)	31,290.0		591.3
Accrued interest receivable	(3,325.0)	(3,339.2)		(63.1)
Other assets	(75,909.2)	(18,470.3)		(349.2)
Accrued interest payable	14,136.7	15,050.8		284.5
Accrued expense and other liabilities	60,498.5	9,146.4		172.7
Net cash provided by operating activities	(10,470.1)	74,112.4		1,400.4
Cash flows from investing activities:				
Net change in term placements	(12,354.3)	(17,335.8)		(327.6)
Net change in available for sale securities	(104,485.4)	(15,112.4)		(285.6)
Net change in repurchase options and reverse repurchase options	67,000.0	45,625.6		862.2
Loans purchased	(19,888.5)	(25,565.9)		(483.1)
Repayments on loans purchased	20,193.7	20,318.2		383.9
Increase in loans originated, net of principal collections	(296,918.4)	(371,241.3)		(7,015.0)
Additions to property and equipment	(2,847.1)	(4,969.0)		(93.9)
Proceeds from sale or disposal of property and equipment	18.8	29.0		0.5
Net cash used in investing activities	Rs. (349,281.2)	Rs. (368,251.6)		US\$ (6,958.6)

Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)****(Unaudited)**

	2011	2012	2012
Cash flows from financing activities:			
Net increase in deposits	Rs. 217,124.9	Rs. 268,423.7	US\$ 5,072.3
Net increase (decrease) in short-term borrowings	17,447.9	4,807.0	90.8
Proceeds from issue of shares by a subsidiary to noncontrolling interests	3.0		
Proceeds from issuance of long-term debt	69,069.5	88,921.9	1,680.3
Repayment of long-term debt	(1,991.8)	(12,028.3)	(227.3)
Proceeds from issuance of equity shares for options exercised	2,985.9	4,486.7	84.8
Payment of dividends and dividend tax	(8,953.3)	(11,786.9)	(222.7)
Net cash provided by financing activities	295,686.1	342,824.1	6,478.2
Effect of exchange rate changes on cash and cash equivalents	2,209.4	644.8	12.2
Net change in cash and cash equivalents	(61,855.8)	49,329.7	932.2
Cash and cash equivalents, beginning of year	288,902.1	188,043.0	3,553.3
Cash and cash equivalents, end of year	Rs. 227,046.3	Rs. 237,372.7	US\$ 4,485.5
Supplementary cash flow information:			
Interest paid	Rs. 55,867.5	Rs. 79,857.7	US\$ 1,509.0
Income taxes paid	Rs. 12,950.1	Rs. 18,589.3	US\$ 351.3
Non-cash investment activities			
Payable for purchase of property and equipment	Rs. 343.7	Rs. 181.0	US\$ 3.4
	See accompanying notes to condensed consolidated financial statements		

Table of Contents**HDFC BANK LIMITED AND ITS SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY****(Unaudited)**

	Number of Equity Shares	Equity Share Capital	Additional Paid In Capital	Retained Earnings	Statutory Reserve*	Accumulated Other Comprehensive Income (loss)	Total HDFC Bank Limited Shareholders Equity	Noncontrolling interest	Total Shareholders Equity
Balance at March 31, 2011	2,326,128,420	Rs. 4,652.2	Rs. 235,377.9	Rs. 71,946.1	Rs. 40,228.0	Rs. (5,712.5)	Rs. 346,491.7	Rs. 1,338.1	Rs. 347,829.8
Shares issued upon exercise of options	12,183,710	24.4	2,961.5				2,985.9		2,985.9
Share-based compensation			1,883.3				1,883.3		1,883.3
Dividends, including dividend tax				(8,953.3)			(8,953.3)		(8,953.3)
Change in ownership interest in subsidiary			48.8				48.8	(48.8)	
Shares issued to non-controlling interest								3.0	3.0
Net income				20,008.8			20,008.8	82.1	20,090.9
Net change in accumulated other comprehensive income						(3,939.1)	(3,939.1)		(3,939.1)
Balance at September 30, 2011	2,338,312,130	Rs. 4,676.6	Rs. 240,271.5	Rs. 83,001.6	Rs. 40,228.0	Rs. (9,651.6)	Rs. 358,526.1	Rs. 1,374.4	Rs. 359,900.5

See accompanying notes to condensed consolidated financial statements

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	Number of Equity Shares	Equity Share Capital	Additional Paid In Capital	Retained Earnings	Statutory Reserve*	Accumulated Other Comprehensive Income (loss)	Total HDFC Bank Limited Shareholders Equity	Noncontrolling Interest	Total Shareholders Equity
Balance at March 31, 2012	2,346,688,270	Rs. 4,693.4	Rs. 244,564.7	Rs. 99,761.6	Rs. 53,248.3	Rs. (7,212.8)	Rs. 395,055.2	Rs. 1,537.5	Rs. 396,592.7
Shares issued upon exercise of options	15,009,970	30.0	4,456.7				4,486.7		4,486.7
Share-based compensation			2,682.9				2,682.9		2,682.9
Dividends, including dividend tax				(11,786.9)			(11,786.9)		(11,786.9)
Net income				26,225.6			26,225.6	130.8	26,356.4
Net change in accumulated other comprehensive income						5,016.6	5,016.6		5,016.6
Balance at September 30, 2012	2,361,698,240	Rs. 4,723.4	Rs. 251,704.3	Rs. 114,200.3	Rs. 53,248.3	Rs. (2,196.2)	Rs. 421,680.1	Rs. 1,668.3	Rs. 423,348.4
Balance at September 30, 2012	2,361,698,240	US\$ 89.3	US\$ 4,756.3	US\$ 2,158.0	US\$ 1,006.2	US\$ (41.5)	US\$ 7,968.3	US\$ 31.5	US\$ 7,999.8

* In terms of local regulations the Bank is required to transfer 25% of its profit after tax (Indian GAAP) to a non-distributable statutory reserve and to meet certain other conditions in order to pay dividends without prior RBI approval

See accompanying notes to condensed consolidated financial statements

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HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

These condensed consolidated financial statements should be read in conjunction with the financial statements of the Bank included in its Form 20-F filed with the Securities and Exchange Commission on July 27, 2012.

1. Summary of significant accounting policies

a. Principles of consolidation

The consolidated financial statements include the accounts of HDFC Bank Limited and its subsidiaries. The Bank consolidates subsidiaries in which, directly or indirectly, it holds more than 50% of the voting rights or has control. Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence are accounted for under the equity method. These investments are included in other assets and the Bank's proportionate share of income or loss is included in Non-interest revenue, other. The Bank consolidates Variable Interest Entities (VIEs) where the Bank is determined to be the primary beneficiary under Financial Accounting Standard Board Accounting Standard Codification FASB ASC Topic 810 Consolidations. All significant inter-company accounts and transactions are eliminated on consolidation.

b. Basis of presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). US GAAP differs in certain material respects from accounting principles generally accepted in India, the requirements of India's Banking Regulations Act and related regulations issued by the Reserve Bank of India (RBI) (collectively Indian GAAP), which form the basis of the statutory general purpose financial statements of the Bank in India. Principal differences insofar as they relate to the Bank include: determination of the allowance for credit losses, classification and valuation of investments, accounting for deferred income taxes, stock-based compensation, employee benefits, loan origination fees, derivative financial instruments, business combination and the presentation format and disclosures of the financial statements and related notes.

c. Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the years presented. Actual results could differ from these estimates. Material estimates included in these financial statements that are susceptible to change include the allowance for credit losses, the valuation of unquoted investments, other than temporary impairment, valuation of derivatives, stock-based compensation and impairment assessment of goodwill.

d. Allowance for credit losses

The Bank provides an allowance for credit losses based on management's best estimate of losses inherent in the loan portfolio which includes troubled debt restructuring. The allowance for credit losses consists of allowances for retail loans and wholesale loans.

Retail

The Bank's retail loan loss allowance consists of specific and unallocated allowances.

The Bank establishes a specific allowance on the retail loan portfolio based on factors such as the nature of the product, delinquency levels or the number of days the loan is past due and the nature of the security available. Additionally the Bank monitors loan to value ratios for loan against securities. The loans are charged off against allowances typically when the account becomes 150 to 1,083 days past due depending on the type of loans. The defined delinquency levels at which major loan types are charged off are 150 days past due for personal loans and credit card receivables, 180 days past due for auto loans, commercial vehicle and construction equipment finance, 720 days past due for housing loans and on a customer by customer basis in respect of retail business banking when management believes that any future cash flows from these loans are remote including realization of collateral, if applicable, and where any restructuring or any other settlement arrangements are not feasible.

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The Bank also records unallocated allowances for its retail loans by product type. The Bank's retail loan portfolio is comprised of groups of large numbers of small value homogeneous loans. The Bank establishes an unallocated allowance for loans in each product group based on its estimate of the expected amount of losses inherent in such product. In making such estimates, among other factors considered, the Bank stratifies such loans based on the number of days past due and takes into account historical losses for such product, the nature of security available and loan to value ratios. Subsequent recoveries, if any, against write-off cases, are adjusted to provision for credit losses in the consolidated statement of income.

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Wholesale

The allowance for wholesale loans consists of specific and unallocated components. The allowance for such credit losses is evaluated on a regular basis by management and is based upon management's view of the probability of recovery of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, factors affecting the industry which the loan exposure relates to and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loans are charged off against the allowance when management believes that the loan balance cannot be recovered. Subsequent recoveries, if any, against write-off cases, are adjusted to provision for credit losses in the consolidated statement of income.

The Bank grades its wholesale loan accounts considering both qualitative and quantitative criteria. Wholesale loans are considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, the financial condition of the borrower, the value of collateral held, and the probability of collecting scheduled principal and interest payments when due.

The Bank establishes specific allowances for each impaired wholesale loan customer in the aggregate for all facilities, including term loans, cash credits, bills discounted and lease finance, based on either the present value of expected future cash flows discounted at the loan's effective interest rate or the net realizable value of the collateral if the loan is collateral dependent.

Wholesale loans that experience insignificant payment delays and payment shortfalls are generally not classified as impaired but are placed on a surveillance watch list and closely monitored for deterioration. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, market information, and the amount of the shortfall in relation to the principal and interest owed.

In light of the significant growth in the size and diversity of its wholesale loan portfolio, the Bank has also established an unallocated allowance for wholesale standard loans based on the overall portfolio quality, asset growth, economic conditions and other risk factors. The Bank estimates its wholesale unallocated allowance based on an internal credit slippage matrix, which measures the Bank's historic losses for its standard loan portfolio.

e. Income tax

The Bank estimates its income tax expense for the interim periods based on its best estimate of the expected effective income tax rate for a full year.

f. Revenue recognition

Interest income from loans and from investments is recognized on an accrual basis when earned except in respect of loans or investments placed on non-accrual status, where it is recognized when received. The Bank generally does not charge upfront loan origination fees. Nominal application fees are charged which offset the related costs incurred.

Fees and commissions from guarantees issued are amortized over the contractual period of the commitment, provided the amounts are collectible.

Dividends from investments are recognized when declared.

Realized gains and losses on sale of securities are recorded on the trade date and are determined using the weighted average cost method.

Other fees and income are recognized when earned, which is when the service that results in the income has been provided. The Bank amortizes annual fees on credit cards over the contractual period of the fees.

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In April 2011, Accounting Standards Update (ASU) 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring* was issued effective for interim and annual periods beginning on or after June 15, 2011. ASU 2011-02 provides evaluation criteria for whether a restructuring constitutes a troubled debt restructuring. Additional disclosures around the nature and extent of modified finance receivables and their effect on the allowance for loan losses may be required under ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses for finance receivables meeting the definition of a troubled debt restructuring in ASU 2011-02*. The Bank adopted the provisions of the said update effective April 1, 2012. The adoption of ASU 2011-02 did not have a material impact on the Bank's consolidated financial position, results of operations and cash flows.

In April 2011, FASB issued new accounting guidance that addresses effective control in repurchase agreements and eliminates the requirement for entities to consider whether the transferor (i.e., seller) has the ability to repurchase the financial assets in a repurchase agreement. This new accounting guidance was issued effective on a prospective basis to new transactions or modifications for interim or annual periods beginning on or after December 15, 2011. The Bank adopted the provisions of the said update effective April 1, 2012. The adoption of this guidance did not have a material impact on the Bank's consolidated financial position or results of operations.

In May 2011, FASB issued ASU 2011-04 *Fair Value Measurement* which amends the fair value accounting guidance. The amendments clarify the application of the highest and best use and valuation premise concepts, preclude the application of blockage factors in the valuation of all financial instruments and include criteria for applying the fair value measurement principles to portfolios of financial instruments. The amendments additionally prescribe enhanced financial statement disclosures for Level 3 fair value measurements. The new amendments were issued effective for interim or annual periods beginning on or after December 15, 2011. The Bank adopted the provisions of the said update effective April 1, 2012. The adoption of this guidance did not have a material impact on the Bank's consolidated financial position or results of operations.

In June 2011, FASB issued new accounting guidance on the presentation of comprehensive income in financial statements. The new guidance removes current presentation options and requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. In December 2011, FASB amended this guidance to defer the changes relating to the presentation of reclassification adjustments out of accumulated other comprehensive income. This new accounting guidance was issued effective for interim or annual periods beginning on or after December 15, 2011. The Bank adopted the provisions of the said update effective April 1, 2012. Upon adoption of this guidance, the Bank changed the presentation of comprehensive income. The adoption of this guidance did not have any impact on the Bank's consolidated financial position or results of operations.

In September 2011, FASB issued new Accounting Standards Update 2011-08, *Testing Goodwill for Impairment*, which amends the guidance in ASC 350-20. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The Bank adopted the provisions of the said update effective April 1, 2012. The adoption of this guidance did not have a material impact on the Bank's consolidated financial position or results of operations.

h. Recently issued accounting pronouncements not yet effective

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities (Topic 210)*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU 2011-11 is effective for interim and annual periods beginning on or after January 1, 2013 and should be applied retrospectively for all comparative periods presented. In January 2013, the FASB issued ASU 2013-01, which clarifies the scope of ASU 2011-11 by limiting the disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent they are subject to an enforceable master netting or similar arrangement. The Updates will not affect our consolidated financial results since they amend only the disclosure requirements for offsetting financial instruments.

In July 2012, the FASB issued ASU 2012-02, *Intangibles—Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment*. The update simplifies the guidance for testing the decline in the realizable value of indefinite-lived intangible assets other than goodwill. The update allows entities to perform a qualitative assessment about the likelihood of impairment of an indefinite-lived intangible asset to determine whether further impairment testing is necessary, similar in approach to the goodwill impairment test. ASU 2012-02 is effective for interim and annual periods beginning on or after September 15, 2012. The adoption of this guidance is not expected to have a material impact on the Bank's consolidated financial position or results of operations.

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In February 2013, the FASB issued ASU 2013-02, Comprehensive Income- Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (Topic 220). ASU 2013-02, requires an entity to disclose the effect on net income line items from significant amounts reclassified out of accumulated other comprehensive income and entirely into net income. However, for those reclassifications that are partially or entirely capitalized on the balance sheet, then entities must provide a cross-reference to disclosures that provide information about the effect of the reclassifications. ASU 2013-02 is effective for interim and annual periods beginning on or after December 15, 2012. The adoption of this guidance is not expected to have a material impact on the Bank's consolidated financial position or results of operations.

i. Convenience translation

The accompanying financial statements have been expressed in Indian Rupees (Rs.), the Bank's functional currency. For the convenience of the reader, the financial statements as of and for the year ended September 30, 2012 have been translated into U.S. dollars at U.S.\$1.00 = Rs. 52.92 as published by the Federal Reserve Board of New York on September 28, 2012. Such translation should not be construed as a representation that the rupee amounts have been or could be converted into United States dollars at that or any other rate, or at all.

2. Investments, held for trading

The portfolio of trading securities as of March 31, 2012 and September 30, 2012 was as follows:

	Amortized Cost	As of March 31, 2012		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(In millions)		
Government of India securities	Rs. 41,815.4	Rs. 8.8	Rs. 185.3	Rs. 41,638.9
Securities issued by Government of India sponsored institutions	78.1	1.6		79.7
State government securities	9,379.0	9.4	9.9	9,378.5
Other corporate/financial institution securities	7,079.8	41.5	6.5	7,114.8
Deposit Certificates issued by banks	18,829.1	3.8	1.4	18,831.5
Total debt securities	Rs. 77,181.4	Rs. 65.1	Rs. 203.1	Rs. 77,043.4
	Amortized Cost	As of September 30, 2012		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(In millions)		
Government of India securities	Rs. 45,352.5	Rs. 28.7	Rs. 29.2	Rs. 45,352.0
Other corporate/financial institution securities	5,500.5	11.6		5,512.1
Total debt securities	Rs. 50,853.0	Rs. 40.3	Rs. 29.2	Rs. 50,864.1
Equity securities	302.8	9.5	1.6	310.7
Total	Rs. 51,155.8	Rs. 49.8	Rs. 30.8	Rs. 51,174.8
Total	US\$ 966.7	US\$ 0.9	US\$ 0.6	US\$ 967.0

Table of Contents**3. Investments, available for sale**

The portfolio of available for sale securities at March 31, 2012 and September 30, 2012 was as follows:

	Amortized Cost	As of March 31, 2012		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In millions)				
Government of India securities	Rs. 764,267.2	Rs. 505.2	Rs. 12,432.3	Rs. 752,340.1
Securities issued by Government of India sponsored institutions	376.7	2.3		379.0
State government securities	251.8		1.6	250.2
Securities issued by state government sponsored institutions	754.9		16.8	738.1
Credit substitutes	11,789.8	47.3	36.6	11,800.5
Other corporate/financial institution bonds	219.7	27.3		247.0
Certificate of Deposit	27,235.0	29.4	55.2	27,209.2
Debt securities, other than asset and mortgage-backed securities	804,895.1	611.5	12,542.5	792,964.1
Mortgage-backed securities	3,094.3	222.9	6.3	3,310.9
Asset-backed securities	485.3	100.0		585.3
Other securities (including mutual funds)	9,557.7	662.4		10,220.1
Total	Rs. 818,032.4	Rs. 1,596.8	Rs. 12,548.8	Rs. 807,080.4
Securities with gross unrealized losses				Rs. 704,464.5
Securities with gross unrealized gains				102,615.9
				Rs. 807,080.4

	Amortized Cost	As of September 30, 2012		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In millions)				
Government of India securities	Rs. 750,116.2	Rs. 2,162.6	Rs. 7,083.6	Rs. 745,195.2
Securities issued by Government of India sponsored institutions	297.1	2.4		299.5
State government securities	253.9	0.2	0.5	253.6
Securities issued by state government sponsored institutions	5.0			5.0
Credit substitutes	20,402.0	83.7	3.1	20,482.6
Other corporate/financial institution bonds	3,177.5	59.2	0.1	3,236.6
Certificate of Deposit	27,573.1	149.3		27,722.4
Debt securities, other than asset and mortgage-backed securities	801,824.8	2,457.4	7,087.3	797,194.9
Mortgage-backed securities	2,687.6	180.3	2.5	2,865.4
Asset-backed securities	481.5	142.4	6.7	617.2
Other securities (including mutual funds)	25,176.2	671.3	20.2	25,827.3

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Total	Rs.	830,170.1	Rs.	3,451.4	Rs.	7,116.7	Rs.	826,504.8
Total	US\$	15,687.3	US\$	65.2	US\$	134.5	US\$	15,618.0
Securities with gross unrealized losses							Rs.	478,714.9
Securities with gross unrealized gains							Rs.	347,789.9
							Rs.	826,504.8
							US\$	15,618.0

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AFS investments of Rs. 752,595.3 million and Rs. 745,453.8 million as of March 31, 2012 and September 30, 2012, respectively, are eligible for placement towards the Bank's statutory liquidity ratio requirements. These balances are subject to withdrawal and usage restrictions, but may be freely traded by the Bank within those restrictions. Of these investments, Rs. 544,169.2 million as of March 31, 2012 and Rs.474,178.6 million (US\$ 8,960.2 million) as of September 30, 2012, respectively, were kept as margins for clearing, collateral borrowing and lending obligation (CBLO), real time gross settlement (RTGS), with the Reserve Bank of India and other financial institutions.

The Bank conducts a review each year to identify and evaluate investments that have indications of possible impairment. An investment in an equity or debt security is impaired if its fair value falls below its cost and the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include length of time and extent to which fair value has been below cost, the financial condition and near-term prospects of the issuer and whether the Bank intends to sell or will be required to sell the security until the forecasted recovery. The Bank evaluated the impaired investments and has fully recognized an expense of Rs. 487.9 million and Rs. 1,504.2 million (US\$ 28.4 million) as other than temporary impairment in six months period ended September 30, 2011 and September 30, 2012, respectively, because the Bank intends to sell the securities before recovery of their amortized cost. The Bank believes that the other unrealized losses on its investments in equity and debt securities as of September 30, 2012 are temporary in nature. The Bank's review of impairment generally entails:

identification and evaluation of investments that have indications of possible impairment;

analysis of individual investments that have fair values of less than 95% of amortized cost, including consideration of the length of time the investment has been in an unrealized loss position;

analysis of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to have other than temporary impairment; and

documentation of the results of these analysis, as required under business policies.

As of March 31, 2012 and September 30, 2012, the Bank did not hold any debt securities with credit losses for which a portion of other-than-temporary impairment was recognized in other comprehensive income.

The gross unrealized losses and fair value of available for sale securities at March 31, 2012 was as follows:

	As of March 31, 2012				Total	
	Less Than 12 Months		12 Months or Greater			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Government of India securities	Rs. 197,634.4	Rs. 1,424.1	Rs. 479,755.4	Rs. 11,008.2	Rs. 677,389.8	Rs. 12,432.3
State government securities	2.6	0.1	247.5	1.5	250.1	1.6
Securities issued by state government sponsored institutions	733.3	16.8	4.9		738.2	16.8
Credit substitutes	6,545.0	31.0	794.3	5.6	7,339.3	36.6
Other corporate/financial institution bonds			10.0		10.0	
Certificate of Deposit	18,504.3	55.2			18,504.3	55.2
Debt securities	223,419.6	1,527.2	480,812.1	11,015.3	704,231.7	12,542.5
Mortgage-backed securities	232.8	6.3			232.8	6.3

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Total	Rs. 223,652.4	Rs. 1,533.5	Rs. 480,812.1	Rs. 11,015.3	Rs. 704,464.5	Rs. 12,548.8
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The gross unrealized losses and fair value of available for sale securities at September 30, 2012 was as follows:

	As of September 30, 2012				Total	
	Less Than 12 Months		12 Months or Greater			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In millions)					
Government of India securities	Rs. 31,178.3	Rs. 43.0	Rs. 439,592.9	Rs. 7,040.6	Rs. 470,771.2	Rs. 7,083.6
State government securities			107.1	0.5	107.1	0.5
Credit substitutes	6,340.4	3.1	1,201.4		7,541.8	3.1
Other corporate/financial institution bonds	9.7	0.1			9.7	0.1
Debt securities	37,528.4	46.2	440,901.4	7,041.1	478,429.8	7,087.3
Mortgage-backed securities	203.5	2.5			203.5	2.5
Asset-backed securities	15.7	6.7			15.7	6.7
Other securities	65.9	20.2			65.9	20.2
Total	Rs. 37,813.5	Rs. 75.6	Rs. 440,901.4	Rs. 7,041.1	Rs. 478,714.9	Rs. 7,116.7
Total	US\$ 714.5	US\$ 1.4	US\$ 8,331.5	US\$ 133.1	US\$ 9,046.0	US\$ 134.5

The contractual residual maturity of available for sale debt securities other than asset and mortgage-backed securities as of September 30, 2012 is set out below:

	Amortized Cost	As of September 30, 2012	
		Fair Value (In millions)	Fair Value
Within one year	Rs. 264,541.9	Rs. 264,690.6	US\$ 5,001.7
Over one year through five years	396,391.5	391,174.2	7,391.8
Over five years through ten years	91,440.7	91,579.0	1,730.5
Over ten years	49,450.7	49,751.1	940.1
Total	Rs. 801,824.8	Rs. 797,194.9	US\$ 15,064.1

Gross realized gains and gross realized losses from sales of available for sale securities and dividends and interest on such securities are set out below:

	Six months period ended September 30,		
	2011	2012	2012
	(In millions)		
Gross realized gains on sale	Rs. 12.1	Rs. 446.9	US\$ 8.4
Gross realized losses on sale	(205.4)	(0.4)	
Realized gains (losses), net	(193.3)	446.5	8.4
Dividends and interest	26,452.4	33,188.1	627.1

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Total	Rs. 26,259.1	Rs. 33,634.6	US\$ 635.5
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4. Investments, held to maturity

There were no HTM securities as of March 31, 2012 and September 30, 2012.

Under Indian GAAP, transfer from an HTM portfolio to an AFS portfolio are permitted by RBI regulations once every year and the Bank has made transfers in accordance with these regulations. However, the Bank has not established an HTM portfolio under US GAAP and therefore the investment classification made under US GAAP and Indian GAAP varies materially.

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Loan balances include Rs. 64,148.4 million and Rs. 17,500.0 million as of March 31, 2012 and September 30, 2012, respectively, which have been pledged as collateral for borrowings and are therefore restricted.

Loans by facility as of March 31, 2012 and September 30, 2012 were as follows:

	March 31, 2012	As of September 30, 2012 (In millions)	September 30, 2012
Retail loans:			
Auto loans	Rs. 310,822.5	Rs. 334,996.8	US\$ 6,330.2
Personal loans/ Credit cards	219,137.9	254,249.1	4,804.4
Retail business banking	284,431.5	332,508.9	6,283.2
Commercial vehicle and construction equipment finance	228,751.1	257,772.3	4,871.0
Housing loans	142,897.4	155,709.1	2,942.3
Other retail loans	158,926.4	185,348.8	3,502.6
 Subtotal	 Rs. 1,344,966.8	 Rs. 1,520,585.0	 US\$ 28,733.7
 Wholesale loans	 Rs. 689,314.4	 Rs. 884,083.1	 US\$ 16,706.0
 Gross loans	 2,034,281.2	 2,404,668.1	 45,439.7
Less: Allowance for credit losses	27,906.9	32,788.1	619.6
 Total	 Rs. 2,006,374.3	 Rs. 2,371,880.0	 US\$ 44,820.1

Gross loans analyzed by performance are as follows:

	March 31, 2012	As of September 30, 2012 (In millions)	September 30, 2012
Performing	Rs. 2,015,246.3	Rs. 2,384,882.7	US\$ 45,065.8
Impaired	19,034.9	19,785.4	373.9
 Total gross loans	 Rs. 2,034,281.2	 Rs. 2,404,668.1	 US\$ 45,439.7

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The following table provides details of age analysis of loans as of March 31, 2012 and September 30, 2012.

	As of March 31, 2012			
	31-90 days past due	Impaired / 91 days or more past due	Total current or less than 31 days past due (in millions)	Total
Retail Loans				
Auto loans	Rs. 1,081.2	Rs. 952.5	Rs. 308,788.8	Rs. 310,822.5
Personal loans/Credit card	1,376.2	1,087.4	216,674.3	219,137.9
Retail business banking	1,801.9	5,015.4	277,614.2	284,431.5
Commercial vehicle and construction equipment finance	2,087.5	1,589.4	225,074.2	228,751.1
Housing loans	81.3	402.1	142,414.0	142,897.4
Other retail	2,434.4	2,264.5	154,227.5	158,926.4
Wholesale loans	1,256.7	7,723.6	680,334.1	689,314.4
Total	Rs. 10,119.2	Rs. 19,034.9	Rs. 2,005,127.1	Rs. 2,034,281.2

	As of September 30, 2012			
	31-90 days past due	Impaired / 91 days or more past due	Total current or less than 31 days past due (in millions)	Total
Retail Loans				
Auto loans	Rs. 2,383.4	Rs. 1,106.9	Rs. 331,506.5	Rs. 334,996.8
Personal loans/Credit card	1,561.1	1,246.3	251,441.7	254,249.1
Retail business banking	2,519.3	5,399.8	324,589.8	332,508.9
Commercial vehicle and construction equipment finance	5,832.0	2,221.2	249,719.1	257,772.3
Housing loans	83.4	264.9	155,360.8	155,709.1
Other retail	3,143.1	2,308.2	179,897.5	185,348.8
Wholesale loans	775.0	7,238.1	876,070.0	884,083.1
Total	Rs. 16,297.3	Rs. 19,785.4	Rs. 2,368,585.4	Rs. 2,404,668.1
Total	US\$ 308.0	US\$ 373.9	US\$ 44,757.8	US\$ 45,439.7

The Bank has a credit risk mitigating/monitoring mechanism which is comprised of target market definitions, credit approval process, post-disbursement monitoring and remedial management procedures.

For wholesale credit risk in addition to the credit approval process the Bank has an approved framework for the review and approval of credit ratings. Credit Policies and Procedure articulate credit risk strategy and thereby the approach for credit origination, approval and maintenance. The Credit Policies generally address such areas as target markets, portfolio mix, prudential exposure ceilings, concentration limits, price and non-price terms, structure of limits, approval authorities, exception reporting system, prudential accounting and provisioning norms. These are reviewed in detail at annual or more frequent intervals. To ensure adequate diversification of risk, concentration limits have been set up in terms of borrower/business group, industry and risk grading.

For retail credit the policy and approval process are designed for the fact that we have high volumes of relatively homogeneous, small value transactions in retail loans. There are product programs for each of these products, which define the target markets, credit philosophy and process, detailed underwriting criteria for evaluating individual credits, exception reporting systems and individual loan exposure caps. The quantitative parameters considered include income, residence stability, the nature of the employment/business, while the qualitative parameters include accessibility, contractibility and profile. The credit policies/product programs are based on a statistical analysis of our own experience and industry data, in combination with the judgment of our senior officers. We mine data on our borrower account behavior as well as static data

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regularly to monitor the portfolio performance of each product segment regularly, and use these as inputs in revising our product programs, target market definitions and credit assessment criteria to meet our twin objectives of combining volume growth and maintenance of asset quality.

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As an integral part of the credit process, the Bank has a credit rating model appropriate to its wholesale and retail credit segments (see note 1d). The Bank monitors credit quality within its segments based on primary credit quality indicators. This internal grading is updated minimum annually.

Retail Loans

Credit quality indicator based on payment activity as of March 31, 2012 and as of September 30, 2012 is given below.

		As of March 31, 2012						
		Personal	Retail business	Commercial	Housing Loans	Other	Total	
		loans/Credit	banking	vehicle and		retail		
		card		construction				
				equipment				
				finance				
				(In millions)				
Auto loans								
Performing	Rs. 309,870.0	Rs. 218,050.5	Rs. 279,416.1	Rs. 227,161.7	Rs. 142,495.3	Rs. 156,661.9	Rs. 1,333,655.5	
Impaired	952.5	1,087.4	5,015.4	1,589.4	402.1	2,264.5	11,311.3	
Total	Rs. 310,822.5	Rs. 219,137.9	Rs. 284,431.5	Rs. 228,751.1	Rs. 142,897.4	Rs. 158,926.4	Rs. 1,344,966.8	

		As of September 30, 2012						
		Personal	Retail business	Commercial	Housing Loans	Other	Total	
		loans/Credit	banking	vehicle and		retail		
		card		construction				
				equipment				
				finance				
				(In millions)				
Auto loans								
Performing	Rs. 333,889.9	Rs. 253,002.8	Rs. 327,109.1	Rs. 255,551.1	Rs. 155,444.2	Rs. 183,040.6	Rs. 1,508,037.7	
Impaired	1,106.9	1,246.3	5,399.8	2,221.2	264.9	2,308.2	12,547.3	
Total	Rs. 334,996.8	Rs. 254,249.1	Rs. 332,508.9	Rs. 257,772.3	Rs. 155,709.1	Rs. 185,348.8	Rs. 1,520,585.0	
	US\$ 6,330.2	US\$ 4,804.4	US\$ 6,283.2	US\$ 4,871.0	US\$ 2,942.3	US\$ 3,502.6	US\$ 28,733.7	

Wholesale Loans

We have in place a process of grading each borrower according to its financial health and the performance of its business and each borrower is graded as pass/labeled/impaird. Our model assesses the overall risk over four major categories – industry risk, business risk, management risk and financial risk. The inputs in each of the categories are combined to provide an aggregate numerical rating, which is a function of the aggregate weighted scores based on the assessment under each of these four risk categories.

	March 31, 2012	As of September 30, 2012 (In millions)	September 30, 2012
Credit quality indicators - Internally assigned grade and payment activity			
Pass	Rs. 680,542.4	Rs. 875,757.3	US\$ 16,548.7

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Labeled	1,048.4	1,087.7	20.5
Impaired	7,723.6	7,238.1	136.8
Total	Rs. 689,314.4	Rs. 884,083.1	US\$ 16,706.0

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Impaired loans are those for which the Bank believes that it is probable that it will not collect all amounts due according to the original contractual terms of the loans and includes troubled debt restructuring. The following table provides details of impaired loans as of March 31, 2012 and September 30, 2012.

	As of March 31, 2012				
	Recorded investments	Unpaid principal balance	Related specific allowance (In millions)	Average Recorded investments	Finance Receivable on Non Accrual Basis
Retail Loans					
Auto loans	Rs. 952.5	Rs. 952.5	Rs. 461.7	Rs. 967.6	Rs. 952.5
Personal loans/ Credit card	1,087.4	1,087.4	755.9	1,196.2	1,087.4
Retail business banking	5,015.4	5,015.4	4,542.7	5,070.8	5,015.4
Commercial vehicle and construction equipment finance	1,589.4	1,589.4	978.0	1,159.8	1,589.4
Housing loans	402.1	402.1	269.4	425.2	402.1
Other retail	2,264.5	2,264.5	1,875.3	2,415.9	2,264.5
Wholesale loans	7,723.6	7,723.6	6,433.7	8,613.3	7,099.2
Total	Rs. 19,034.9	Rs. 19,034.9	Rs. 15,316.7	Rs. 19,848.8	Rs. 18,410.5

The Bank holds no recorded impaired loans for which there is no related allowance.

	As of September 30, 2012				
	Recorded investments	Unpaid principal balance	Related specific allowance (In millions)	Average Recorded investments	Finance Receivable on Non Accrual Basis
Retail Loans					
Auto loans	Rs. 1,106.9	Rs. 1,106.9	Rs. 519.9	Rs. 1,029.7	Rs. 1,106.9
Personal loans/ Credit card	1,246.3	1,246.3	855.2	1,166.9	1,246.3
Retail business banking	5,399.8	5,399.8	4,923.9	5,207.6	5,399.8
Commercial vehicle and construction equipment finance	2,221.2	2,221.2	1,204.2	1,905.3	2,221.2
Housing loans	264.9	264.9	174.3	333.5	264.9
Other retail	2,308.2	2,308.2	1,788.9	2,286.4	2,308.2
Wholesale loans	7,238.1	7,238.1	6,184.3	7,480.9	6,646.9
Total	Rs. 19,785.4	Rs. 19,785.4	Rs. 15,650.5	Rs. 19,410.3	Rs. 19,194.2
Total	US\$ 373.9	US\$ 373.9	US\$ 295.7	US\$ 366.8	US\$ 362.7

The Bank holds no recorded impaired loans for which there is no related allowance.

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Impaired loans by industry as of March 31, 2012 and September 30, 2012 by facility are as follows:

	March 31, 2012	As of September 30, 2012 (In millions)	September 30, 2012
Gross impaired loans by industry:			
NBFC/Financial Intermediaries	Rs. 1,782.7	Rs. 1,466.9	US\$ 27.7
Wholesale/Retail Trade	907.5	1,323.6	25.0
Textiles & Garments	1,430.5	936.6	17.7
Others (none greater than 5% of impaired loans)	14,914.2	16,058.3	303.5
Total	Rs. 19,034.9	Rs. 19,785.4	US\$ 373.9

Summary information relating to impaired loans during the years ended March 31, 2012 and September 30, 2012 is as follows:

	March 31, 2012	Year ended / period ended September 30, 2012 (In millions)	September 30, 2012
Average impaired loans, net of allowance	Rs. 4,145.4	Rs. 3,926.5	US\$ 74.2
Interest income recognized on impaired loans	Rs. 1,668.3	Rs. 617.9	US\$ 11.7

Allowance for credit losses as of March 31, 2012 is as follows:

	As of March 31, 2012									
	Specific						Unallocated			
	Auto loans	Personal Loans/ Credit card	Retail business banking	Specific Retail Commercial vehicle and construction equipment finance	Housing loans	Other retail	Wholesale	Retail	Wholesale	Total
	(In millions)									
Allowance for credit losses, beginning of the period	Rs. 503.1	Rs. 895.2	Rs. 4,396.8	Rs. 594.1	Rs. 237.2	Rs. 1,885.9	Rs. 7,577.5	Rs. 8,357.0	Rs. 1,447.5	Rs. 25,894.3
Write-offs	(1,277.1)	(4,862.7)	(220.6)	(555.8)	(46.3)	(448.7)	(2,818.4)			(10,229.6)
Net allowance for credit losses*	1,235.7	4,723.4	366.5	939.7	78.5	438.1	1,674.6	3,025.5	(239.8)	12,242.2

Allowance for credit losses, end of the period	Rs. 461.7	Rs. 755.9	Rs. 4,542.7	Rs. 978.0	Rs. 269.4	Rs. 1,875.3	Rs. 6,433.7	Rs. 11,382.5	Rs. 1,207.7	Rs. 27,906.9
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Allowance for credit losses:											
Allowance individually evaluated for impairment	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs. 6,433.7	Rs.	Rs.	Rs.	6,433.7
Allowance collectively evaluated for impairment		461.7	755.9	4,542.7	978.0	269.4	1,875.3		11,382.5	1,207.7	21,473.2
Loans:											
Loans individually evaluated for impairment											
Loans collectively evaluated for impairment		952.5	1,087.4	5,015.4	1,589.4	402.1	2,264.5		1,333,655.5	681,590.8	2,026,557.6

* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 4,404.9 million.

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Allowance for credit losses as of September 30, 2012 is as follows:

	As of September 30, 2012								Unallocated		Total	Total
	Auto loans	Personal Loans/ Credit card	Retail business banking	Specific Retail Commercial vehicle and construction equipment finance	Housing Loans	Other retail	Wholesale	Retail	Wholesale			
	(In millions)											
Allowance for credit losses, beginning of the period	Rs. 461.7	Rs. 755.9	Rs. 4,542.7	Rs. 978.0	Rs. 269.4	Rs. 1,875.3	Rs. 6,433.7	Rs. 11,382.5	Rs. 1,207.7	Rs. 27,906.9	US\$ 527.3	
Write-offs	(669.5)	(2,535.4)	(29.5)	(1,014.7)	(28.6)	(518.9)	(42.2)			(4,838.8)	(91.4)	
Net allowance for credit losses*	727.7	2,634.7	410.7	1,240.9	(66.5)	432.5	(207.2)	4,033.1	514.1	9,720.0	183.7	
Allowance for credit losses, end of the period	Rs. 519.9	Rs. 855.2	Rs. 4,923.9	Rs. 1,204.2	Rs. 174.3	Rs. 1,788.9	Rs. 6,184.3	Rs. 15,415.6	Rs. 1,721.8	Rs. 32,788.1	US\$ 619.6	
Allowance for credit losses:												
Allowance individually evaluated for impairment	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs. 6,184.3	Rs.	Rs.	Rs. 6,184.3	US\$ 116.9	
Allowance collectively evaluated for impairment	519.9	855.2	4,923.9	1,204.2	174.3	1,788.9		15,415.6	1,721.8	26,603.8	502.7	
Loans:												
Loans individually evaluated for impairment							7,238.1			7,238.1	136.8	
Loans collectively evaluated for impairment	1,106.9	1,246.3	5,399.8	2,221.2	264.9	2,308.2		1,508,037.7	876,845.0	2,397,430.0	45,302.9	

* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs. 2,283.9 million.

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The unallocated allowance is assessed at each period end and the increase/(decrease) as the case may be is recorded in the income statement under allowances for credit losses. There is no transfer of amounts to or from the unallocated category to the specific category.

Troubled debt restructuring (TDR)

When the Bank grants concession, for economic or legal reasons related to a borrower's financial difficulties, for other than an insignificant period of time, the related loan is classified as a TDR. Concessions could include a reduction in the interest rate below current market rates, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered TDRs. There were no loans modified during the six months ended September 30, 2012 that were classified as TDRs. Accordingly, the allowance for loan losses for TDRs during the six months ended September 30, 2012 was nil.

There were no TDRs that have defaulted in the first six months of fiscal 2013 within 12 months of their modification date (based on payment default definition of 90 days past due).

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Table of Contents**6. Goodwill and other intangible assets**

The Goodwill arising from a business combination is tested on an annual basis for impairment. There were no changes in the carrying amount of goodwill of Rs. 74,937.9 million for the year ended March 31, 2012 and six month period ended September 30, 2012. The entire amount of goodwill was allocated to the retail business. The table below presents the gross carrying amount, accumulated amortization and net carrying amount, in total and by class of intangible assets as of March 31, 2012 and September 30, 2012:

	As of March 31, 2012			As of September 30, 2012			Net carrying amount
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount	
	(In millions)						
Branch network	Rs. 8,335.0	Rs. 5,356.0	Rs. 2,979.0	Rs. 8,335.0	Rs. 6,052.2	Rs. 2,282.8	US\$ 43.2
Customer list	2,710.0	2,710.0		2,710.0	2,710.0		
Core deposit	4,414.0	3,406.0	1,008.0	4,414.0	3,848.0	566.0	10.7
Favorable leases	543.0	456.0	87.0	543.0	473.0	70.0	1.3
Total	Rs. 16,002.0	Rs. 11,928.0	Rs. 4,074.0	Rs. 16,002.0	Rs. 13,083.2	Rs. 2,918.8	US\$ 55.2

Branch network intangible represents the benefit that the Bank received through the acquisition of a ready branch network from Centurion Bank of Punjab Limited (CBoP) as opposed to having to build a new one. The fair value attributable to the branch network intangible is the difference in the present values of the earnings (net of costs) that the Bank would have generated if the Bank had set up its own branches/ATMs (the

Hypothetical New Branch Network Earnings) and the earnings (net of costs) that were generated because of the acquisition of CBoP (the CBoP Branch Network Earnings). Similar streams of revenues and operating costs (and therefore profits) from CBoP s existing customer base and loan portfolio (includes net interest income, fees and commission) have been considered in determining the values of the Hypothetical New Branch Network Earnings and the CBoP Branch Network Earnings. Other assets including intangibles such as customer list, core deposits, loans, premises and equipment have been considered as assets of Hypothetical New Branch Network Earnings and the CBoP Branch Network Earnings and the value of these assets have been included in both of the networks. The aforesaid present values to compute the said intangible assets was intended to capture the advantages that the Bank received through the acquisition of a ready branch network from CBoP (as opposed to having to build a new one) in terms of time and of avoiding the administrative process required to obtaining branch licenses from the Reserve Bank of India (RBI). The Bank calculated the value of the customer list intangible through the cost approach by considering the estimated direct unit costs to source these customers multiplied by the number of customers. The Bank used the cost savings approach, i.e. the difference between the estimated cost of funds on deposit (interest cost and net maintenance costs) and the estimated cost of an equal amount of funds from an alternative source to calculate the core deposit intangible. The valuation of favorable leases intangibles was based on the cost saving to the Bank and future economic benefit until the lease expiry.

The aggregate amortization charged for the six month period ended September 30, 2011 and September 30, 2012 was Rs. 1,165.7 million and Rs. 1,155.2 million (US\$ 21.8 million), respectively.

The estimated amortization expense for intangible assets for each of the five succeeding fiscal years is given in the table below:

	As of September 30,	
	2012	2012
	(In millions)	
To be amortized during the six months ending September 30:		
2013	Rs. 1,983.5	US\$ 37.5
2014	914.8	17.3
2015	12.0	0.2
2016	5.0	0.1
2017	1.9	

Table of Contents**7. Short-term borrowings**

Short-term borrowings are mainly comprised of money market borrowings which are unsecured and are utilized by the Bank for its treasury operations. Short-term borrowings as of March 31, 2012 and September 30, 2012 were comprised of the following:

	March 31, 2012	As of September 30, 2012 (In millions)	September 30, 2012
Borrowed in the call market	Rs. 8,693.3	Rs. 13,910.6	US\$ 262.9
Term borrowings from institutions/banks	44,850.3	3,475.0	65.8
Foreign currency borrowings	59,099.2	82,564.2	1,560.2
Bills rediscounted		17,500.0	330.5
Total	Rs. 112,642.8	Rs. 117,449.8	US\$ 2,219.4

8. Long-term debt

Long-term debt as of March 31, 2012 and September 30, 2012 was comprised of the following:

	March 31, 2012	As of September 30, 2012 (In millions)	September 30, 2012
Subordinated debt	Rs. 111,056.5	Rs. 148,524.5	US\$ 2,806.6
Others	67,310.1	105,274.2	1,989.3
Total	Rs. 178,366.6	Rs. 253,798.7	US\$ 4,795.9

The below table presents the balance of long term debt as of March 31, 2012 and September 30, 2012 and the related contractual rates and maturity dates:

	March 31, 2012			As of September 30, 2012			
	Maturity / Call dates	Stated interest rates	Total	Maturity / Call Dates (In Millions)	Stated interest rates	Total	Total
Subordinated debt							
Lower Tier II							
Fixed rate	2014 - 2022	5.90% to 10.70%	Rs. 69,810.0	2014 - 2027	5.90% to 10.70%	Rs. 107,080.0	US\$ 2,023.4
Upper Tier II							
Fixed rate	2016 - 2021	8.70% to 10.85%	34,159.0	2016 - 2021	8.70% to 10.85%	34,159.0	645.5
Variable rate	2016 - 2017	LIBOR+1.2	5,087.5	2016 - 2017	LIBOR+1.2	5,285.5	99.9
Perpetual debt	2016 - 2017	9.92%	2,000.0	2016 - 2017	9.92%	2,000.0	37.8
Others							
Variable rate (1)	2012 - 2015	1.41% to 2.30%	31,033.8	2012 - 2017	1.30% to 2.94%	40,434.1	764.1
Variable rate (2)	2012 - 2019	10.50% to 10.85%	10,983.9	2014 - 2019	9.50 % to 10.85%	26,735.0	505.2
Fixed rate	2012 - 2019	8.00% to 11.50%	25,292.4	2012 - 2019	8.00% to 11.50%	38,105.1	720.0
Total			Rs. 178,366.6			Rs. 253,798.7	US\$ 4,795.9

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The scheduled maturities of long-term debt are set out below:

	As of September 30, 2012 (In millions)	
Due during the twelve months ending September 30:		
2013	Rs. 18,063.1	US\$ 341.3
2014	39,380.8	744.2
2015	43,349.6	819.2
2016	11,170.0	211.1
2017	11,195.5	211.6
Thereafter (1)	128,639.7	2,430.8
 Total	 Rs. 251,798.7	 US\$ 4,758.2

(1) The scheduled maturities of long-term debt do not include perpetual bonds of Rs. 2.0 billion.

During the six month period ended September 30, 2012, the Bank issued subordinated debt qualifying for Lower Tier II capital amounting to Rs. 37,270.0 million (previous period Rs. 36,500 million).

As of March 31, 2012 and September 30, 2012, other long-term debt includes foreign currency borrowings from other banks aggregating to Rs. 31,033.8 million and Rs.40,434.1 million, respectively, and functional currency borrowings aggregating to Rs. 36,276.3 million and Rs. 64,840.1 million, respectively.

9. Accumulated other comprehensive income (loss)

The below table presents the changes in accumulated other comprehensive income (OCI) after tax for the six months period ended September 30, 2012.

	Six months ended September 30, 2012		
	Available for sale securities	Foreign currency translation reserve (In millions)	Total
Balance, March 31, 2012	Rs. (7,414.9)	Rs. 202.1	Rs. (7,212.8)
Net change	4,998.2	18.4	5,016.6
 Balance, September 30, 2012	 Rs. (2,416.7)	 Rs. 220.5	 Rs. (2,196.2)
 Balance, September 30, 2012	 US\$ (45.7)	 US\$ 4.2	 US\$ (41.5)

Table of Contents**10. Stock-based compensation**

For details of the Bank's employee stock option scheme refer to the Bank's Form 20-F filed with the Securities and Exchange Commission on July 27, 2012.

By a special resolution on July 6, 2011, the shareholders of the Bank approved a stock split which reduced the par value of each equity share from Rs. 10.0 to Rs. 2.0 per share effective as of July 16, 2011. All options information in the condensed financial statements reflect the effect of these events retroactively.

Assumptions used

The fair value of options has been estimated on the dates of each grant using a binomial option pricing model with the following assumptions:

	Six months ended September 30,	
	2011	2012*
Dividend yield	0.65%	
Expected volatility	23.72%-23.82%	
Risk-free interest rate	8.04%-8.14%	
Expected lives	1 to 6 years	

* No employee stock options granted during the period

Activity and other details

Activity in the options available to be granted under the Employee Stock Option Scheme is as follows:

	Options available to be granted	
	Six months ended	
	September 30,	
	2011	2012
Options available to be granted, beginning of year*	91,642,000	57,116,000
Equity shares allocated for grant under the plan		
Options granted	(243,750)	
Forfeited/lapsed*	778,750	613,500
Options available to be granted, end of period	92,177,000	57,729,500

* Does not include options exchanged on acquisition of CBoP since these options on forfeiture/lapse are not available for re-issue.

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Activity in the options outstanding under the Employee Stock Option Scheme is as follows:

	Six months ended September 30,			
	2011	Weighted Average Exercise Price	2012	Weighted Average Exercise Price
	Options		Options	
Options outstanding, beginning of year	85,924,615	Rs. 325.27	99,872,740	Rs. 389.52
Granted	243,750	508.23		
Exercised	(12,183,710)	245.07	(15,009,970)	298.92
Forfeited	(676,500)	439.46	(533,300)	462.29
Lapsed	(122,635)	212.34	(82,995)	253.96
Options outstanding, end of period	73,185,520	Rs. 338.36	84,246,475	Rs. 405.34
Options exercisable, end of period	40,824,270	Rs. 257.26	41,597,775	Rs. 345.83
Weighted average fair value of options granted during the year		Rs. 152.50		Rs

The following summarizes information about stock options outstanding as of September 30, 2012:

Plan	Range of exercise price	As of September 30, 2012		
		Number Of Shares Arising Out Of Options	Weighted Average Remaining Life Years	Weighted Average Exercise Price
Plan B	Rs. 71.72 to Rs. 219.74 (or US\$ 1.36 to US\$ 4.15)	1,164,900	0.89	Rs. 206.51
Plan C	Rs. 126.12 to Rs. 219.74 (or US\$ 2.38 to US\$ 4.15)	1,330,200	0.89	208.56
Plan D	Rs. 219.74 to Rs. 340.96 (or US\$ 4.15 to US\$ 6.44)	18,872,200	1.76	278.83
Plan E	Rs. 440.16 to Rs. 508.23 (or US\$ 8.32 to US\$ 9.60)	61,546,750	4.10	456.65
Key ESOP	Rs. 23.20 (or US\$ 0.44)	33,595	0.54	23.20
General ESOP	Rs. 88.45 to Rs. 251.72 (or US\$ 1.67 to US\$ 4.76)	1,298,830	1.49	Rs. 211.08

The intrinsic value of options exercised during the six months ended September 30, 2011 and September 30, 2012 was Rs. 59.8 million and Rs. 53.2 million, respectively. The aggregate intrinsic value of options outstanding and options exercisable as at September 30, 2012 was Rs. 595.3 million and Rs.123.9 million, respectively. Total stock compensation cost (including on modification) recognized under these plans was Rs. 1,883.3 million and Rs. 2,682.9 million during the six months ended September 30, 2011 and September 30, 2012, respectively. As of September 30, 2012, there were 42,648,700 unvested options with weighted average exercise price of Rs. 463.4 and aggregate intrinsic value of Rs. 471.4. As at September 30, 2012, the total estimated compensation cost to be recognized in future periods was Rs. 2,260.7 million (previous period Rs. 1,479.8 million). This is expected to be recognized over a weighted average period of 0.55 years. The tables reflect an adjustment effected in the previous fiscal year to include the effect of options forfeited/lapsed in respect of resigned employees.

Table of Contents**11. Financial instruments****Foreign exchange and derivative contracts**

The Bank enters into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants on its own account and for customers. These transactions enable customers to transfer, modify or reduce their foreign exchange and interest rate risks.

Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amount at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees. A forward rate agreement gives the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date) when the settlement amount is determined being the difference between the contracted rate and the market rate on the settlement date. Currency options give the buyer the right, but not an obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

The market and credit risk associated with these products, as well as the operating risks, are similar to those relating to other types of financial instruments. Market risk is the exposure created by movements in interest rates and exchange rates during the tenure of the transaction. The extent of market risk affecting such transactions depends on the type and nature of the transaction, the value of the transaction and the extent to which the transaction is uncovered. Credit risk is the exposure to loss in the event of default by counterparties. The extent of loss on account of a counterparty default will depend on the replacement value of the contract at the ongoing market rates.

The Bank uses its pricing models to determine fair values of its derivative financial instruments. These models use market inputs that are observable directly or indirectly except credit risk.

The following table presents the aggregate notional principal amounts of the Bank's outstanding forward exchange and other derivative contracts as of March 31, 2012 and September 30, 2012, together with the fair values on each reporting date.

	Notional	As of March 31, 2012				Notional	Net Fair Value
		Gross Assets	Gross Liabilities	(In millions)			
Interest rate derivatives	Rs. 2,352,335.4	Rs. 11,735.6	Rs. 12,353.8		Rs. (618.2)		
Currency options	220,616.6	3,987.7	3,038.8		948.9		
Currency swaps	53,438.4	2,959.3	1,882.0		1,077.3		
Forward exchange contracts	5,648,917.1	114,511.7	110,657.7		3,854.0		
Total	Rs. 8,275,307.5	Rs. 133,194.3	Rs. 127,932.3		Rs. 5,262.0		

	Notional	Gross Assets	As of September 30, 2012		Notional	Net Fair Value
			Gross Liabilities	Net Fair Value		
Interest rate derivatives	Rs. 2,348,105.6	Rs. 7,046.6	Rs. 8,259.1	Rs. (1,212.5)	US\$ 44,370.9	US\$ (22.9)
Forward Rate Agreements	44,389.2	39.1	39.3	(0.2)	838.8	
Currency options	260,726.2	3,326.8	3,386.2	(59.4)	4,926.8	(1.1)
Currency swaps	55,325.0	2,960.0	1,893.9	1,066.1	1,045.4	20.1
Forward exchange contracts	6,336,234.7	123,955.1	120,392.8	3,562.3	119,732.3	67.3
Total	Rs. 9,044,780.7	Rs. 137,327.6	Rs. 133,971.3	Rs. 3,356.3	US\$ 170,914.2	US\$ 63.4

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The Bank has not designated the above contracts as accounting hedges and accordingly the contracts are recorded at fair value on the balance sheet with changes in fair value recorded in earnings. The gross assets and the gross liabilities are recorded in other assets and accrued expenses and other liabilities, respectively.

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The following table summarizes certain information related to derivative amounts recognized in income:

	Non-interest revenue, net		
	Derivatives for the six months period ended		September 30,
	2011	2012	2012
	(In millions)		
Interest rate derivatives	Rs. 697.9	Rs. (883.9)	US\$ (16.7)
Forward rate agreements	(0.1)	3.8	0.1
Currency options	55.3	(931.4)	(17.6)
Currency swaps	(0.4)	(1.8)	
Forward contracts	(4,244.2)	1,924.1	36.3
Total gains/(losses)	Rs. (3,491.5)	Rs. 110.8	US\$ 2.1

Guarantees

As a part of its commercial banking activities, the Bank has issued guarantees and documentary credits, such as letters of credit, to enhance the credit standing of its customers. These generally represent irrevocable assurances that the Bank will make payments in the event that the customer fails to fulfill his financial or performance obligations. Financial guarantees are obligations to pay a third party beneficiary where a customer fails to make payment towards a specified financial obligation. Performance guarantees are obligations to pay a third party beneficiary where a customer fails to perform a non-financial contractual obligation. The tenure of the guarantees issued or renewed by the Bank is normally in line with requirements on case by case basis as may be assessed by the Bank. The remaining tenure of guarantees presently issued by the Bank and outstanding range from 1 day to 20 years.

The credit risk associated with these products, as well as the operating risks, is similar to those relating to other types of financial instruments.

In terms of FASB ASC 460-10 the Bank has recognized a liability of Rs. 895.9 million and Rs.992.4 million as of March 31, 2012 and September 30, 2012 respectively, in respect of guarantees issued or modified. Based on historical trends, in terms of FASB ASC 450, the Bank has recognized a liability of Rs. 375.4 million and Rs.480.6 million as of March 31, 2012 and September 30, 2012, respectively.

Details of guarantees and documentary credits outstanding are set out below:

	March 31, 2012	As of September 30, 2012 (In millions)	September 30, 2012
Nominal values:			
Bank guarantees:			
Financial guarantees	Rs. 76,921.6	Rs. 84,315.8	US\$ 1,593.3
Performance guarantees	59,909.3	64,494.2	1,218.7
Documentary credits	209,182.1	213,046.0	4,025.8
Total	Rs. 346,013.0	Rs. 361,856.0	US\$ 6,837.8
Estimated fair values:			
Guarantees	Rs. (895.9)	Rs. (992.4)	US\$ (18.8)
Documentary credits	(171.7)	(223.5)	(4.2)
Total	Rs. (1,067.6)	Rs. (1,215.9)	US\$ (23.0)

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As part of its risk management activities, the Bank monitors the credit-worthiness of customers as well as guarantee exposures. If a customer fails to perform a specified obligation, a beneficiary may draw upon the guarantee by presenting documents in compliance with the guarantee. In that event, the Bank makes payment on account of the defaulting customer to the beneficiary up to the full notional amount of the guarantee. The customer is obligated to reimburse the Bank for any such payment. If the customer fails to pay, the Bank liquidates any collateral held and sets off accounts; if insufficient collateral is held, the Bank recognizes a loss.

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Table of Contents***Loan sanction letters***

The Bank issues sanction letters indicating its intent to provide new loans to certain customers. The aggregate of loans contemplated in these letters that had not yet been made was Rs.678,811.8 million as of September 30, 2012. If the Bank were to make such loans, the interest rates would be dependent on the lending rates in effect when the loans were disbursed. The Bank has no commitment to lend under these letters. Among other things, the making of a loan is subject to a review of the credit-worthiness of the customer at the time the customer seeks to borrow, at which time the Bank has the unilateral right to decline to make the loan.

12. Estimated fair value of financial instruments

The Bank's financial instruments include financial assets and liabilities recorded on the balance sheet, including instruments such as foreign exchange and derivative contracts. Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of all the amounts the Bank could have realized in a sales transaction as of March 31, 2012 and September 30, 2012. The estimated fair value amounts as of March 31, 2012 and September 30, 2012 have been measured as of the respective year ends, and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year end.

Financial instruments valued at carrying value:

The respective carrying values of certain on-balance-sheet financial instruments approximated their fair value. These financial instruments include cash and amounts due from banks, interest-bearing deposits in banks, securities purchased and sold under resale and repurchase agreements, accrued interest receivable, acceptances, accrued interest payable, and certain other assets and liabilities that are considered financial instruments. Carrying values were assumed to approximate fair values for these financial instruments as they are short-term in nature and their recorded amounts approximate fair values or are receivable or payable on demand.

Trading securities:

Trading securities are carried at fair value based on quoted market prices. If quoted market prices did not exist, fair values were estimated using market yield on balance period to maturity on similar instruments and similar credit risk. For more information on the fair value of these securities, refer to Note 2.

Available for sale securities:

Available for sale investments principally comprise debt securities and are carried at fair value. Such fair values were based on quoted market prices, if available. If quoted market prices did not exist, fair values were estimated using a market yield on the balance period to maturity on similar instruments and similar credit risks. The fair values of asset-backed and mortgage-backed securities is estimated based on revised estimated cash flows at each balance sheet date, discounted at current market pricing for transactions with similar risk. For more information on the fair value of these securities, refer to Note 3.

Loans:

The fair values of consumer installment loans and other consumer loans that do not reprice frequently were estimated using discounted cash flow models. The discount rates were based on current market pricing for loans with similar characteristics and risk factors. Since substantially all individual lines of credit and other variable rate consumer loans reprice frequently, with interest rates reflecting current market pricing, the carrying values of these loans approximate their fair values.

The fair values of commercial loans that do not reprice or mature within relatively short time frames were estimated using discounted cash flow models. The discount rates were based on current market interest rates for loans with similar remaining maturities and credit ratings. For commercial loans that reprice within relatively short time frames, the carrying values approximate their fair values.

For purposes of these fair value estimates, the fair values of impaired loans were computed by deducting an estimated market discount from their carrying values to reflect the uncertainty of future cash flows.

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The fair value of demand deposits, savings deposits, and money market deposits without defined maturities are the amounts payable on demand. For deposits with defined maturities, the fair values were estimated using discounted cash flow models that apply market interest rates corresponding to similar deposits and timing of maturities.

Short-term borrowings:

The fair values of the Bank's short-term debt were calculated based on a discounted cash flow model. The discount rates were based on yield curves appropriate for the remaining maturities of the instruments.

Long-term debt:

The fair values of the Bank's unquoted long-term debt instruments were calculated based on a discounted cash flow model. The discount rates were based on yield curves appropriate for the remaining maturities of the instruments.

Term placements:

The fair values of term placements were estimated using discounted cash flow models. The discount rates were based on current market pricing for placements with similar characteristics and risk factors.

Derivatives

For a description of our foreign exchange and derivative contracts, see note 11 above.

A comparison of the fair values and carrying values of financial instruments is set out below:

	March 31, 2012		Carrying Value	Level 1	September 30, 2012			Carrying Value	Estimated Fair Value
	Carrying Value	Estimated Fair Value			Estimated Fair Value	Level 2	Level 3		
Financial Assets:									
Cash and cash equivalents	Rs. 188,043.0	Rs. 188,043.0	Rs. 237,372.7	Rs. 237,372.7	Rs.	Rs.	Rs. 237,372.7	US\$ 4,485.5	US\$ 4,485.5
Term placements	150,096.5	149,900.6	167,432.3			167,293.3	167,293.3	3,163.9	3,161.2
Investments held for trading	77,043.4	77,043.4	51,174.8	310.7	50,864.1		51,174.8	967.0	967.0
Investments available for sale*	806,501.6	806,501.6	825,885.0	738.8	825,146.2		825,885.0	15,606.3	15,606.3
Securities purchased under agreements to resell	20,868.3	20,868.3	242.7		242.7		242.7	4.6	4.6
Loans	2,006,374.3	2,025,336.9	2,371,880.0		2,401,850.5		2,401,850.5	44,820.1	45,386.4
Accrued interest receivable	26,645.5	26,645.5	29,982.7		29,982.7		29,982.7	566.6	566.6
Other assets	161,705.4	160,657.4	173,289.4		172,415.5		172,415.5	3,274.6	3,258.0
Financial Liabilities:									
Interest-bearing deposits	2,012,057.9	2,018,607.1	2,258,238.2		2,272,020.6		2,272,020.6	42,672.7	42,933.1
Non-interest-bearing deposits	452,991.7	452,991.7	479,441.0		479,441.0		479,441.0	9,059.7	9,059.7

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Securities sold under repurchase agreements	70,000.0	70,000.0	95,000.0	95,000.0	95,000.0	1,795.2	1,795.2
Short-term borrowings	112,642.8	112,642.8	117,449.8	117,794.9	117,794.9	2,219.4	2,225.9
Accrued interest payable	51,935.9	51,935.9	66,982.1	66,982.1	66,982.1	1,265.7	1,265.7
Long-term debt	178,366.6	181,775.7	253,798.7	259,586.8	259,586.8	4,795.9	4,905.3
Accrued expenses and other liabilities	263,198.8	263,198.8	267,801.8	267,801.8	267,801.8	5,060.5	5,060.5

** excluding investments carried at cost*

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The Bank operates in three reportable segments: wholesale banking, retail banking and treasury services. The revenue and related expense recognition policies are set out in Note 1. Substantially all operations and assets are based in India.

The retail banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and makes loans, provides credit cards and debit cards, distributes third-party financial products, such as mutual funds and insurance, and provides advisory services to such customers. Revenues of the retail banking segment are derived from interest earned on retail loans, fees for banking and advisory services, profit from foreign exchange and derivative transactions and interest earned from other segments for surplus funds placed with those segments. Expenses of this segment are primarily comprised of interest expense on deposits, infrastructure and premises expenses for operating the branch network and other delivery channels, personnel costs, other direct overheads and allocated expenses. The Bank's retail banking loan products also include loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes. Such grouping ensures optimum utilization and deployment of specialized resources in the retail banking business.

The wholesale banking segment provides loans and transaction services to corporate customers. As discussed above, loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes are included in the retail banking segment. Revenues of the wholesale banking segment consist of interest earned on loans made to corporate customers, investment income from credit substitutes, interest earned on the cash float arising from transaction services, fees from such transaction services and profits from foreign exchange and derivative transactions with wholesale banking customers. The principal expenses of the segment consist of interest expense on funds borrowed from other segments, premises expenses, personnel costs, other direct overheads and allocated expenses.

The treasury services segment undertakes trading operations on the proprietary account (including investments in government securities), foreign exchange operations and derivatives trading both on the proprietary account and customer flows and borrowings. Revenues of the treasury services segment primarily consist of fees and gains and losses from trading operations and of net interest revenue/ expense from investments in government securities and borrowings. Revenues from foreign exchange and derivative operations and customer flows are classified under the retail or wholesale segments depending on the profile of the customer.

Segment income and expenses include certain allocations. Interest income is charged by a segment that provides funding to another segment, based on yields benchmarked to an internally developed composite yield curve which broadly tracks market-discovered interest rates.

Directly identifiable overheads are attributed to a segment at actual amounts incurred. Indirect shared costs, principally corporate office expenses, are generally allocated to each segment on the basis of area occupied, number of staff, volume and nature of transactions.

Summarized segment information for the six months ended September 30, 2011 and September 30, 2012:

	Six months ended September 30, 2011				Total
	Retail Banking	Wholesale Banking	Treasury Services		
	(In millions)				
Net interest revenue	Rs. 48,292.6	Rs. 9,962.2	Rs. 1,168.3	Rs. 59,423.1	
Less: Provision for credit losses	5,877.8	1,019.7		6,897.5	
Net interest revenue, after allowance for credit losses	42,414.8	8,942.5	1,168.3	52,525.6	
Non-interest revenue	20,115.9	4,051.4	(1,157.3)	23,010.0	
Non-interest expense	(40,442.1)	(4,325.8)	(508.2)	(45,276.1)	
Income before income tax	Rs. 22,088.6	Rs. 8,668.1	Rs. (497.2)	Rs. 30,259.5	
Segment assets:					
Segment total assets	Rs. 1,678,552.6	Rs. 1,461,234.9	Rs. 237,163.6	Rs. 3,376,951.1	

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	Six months ended September 30, 2012					Total	Total
	Retail Banking	Wholesale Banking	Treasury Services (In millions)	Total	Total		
Net interest revenue	Rs. 60,844.0	Rs. 13,083.7	Rs. 559.0	Rs. 74,486.7	US\$ 1,407.5		
Less: Provision for credit losses	7,156.2	279.9		7,436.1	140.5		
Net interest revenue, after allowance for credit losses	53,687.8	12,803.8	559.0	67,050.6	1,267.0		
Non-interest revenue	25,519.8	4,151.6	(686.2)	28,985.2	547.7		
Non-interest expense	(50,283.6)	(5,529.4)	(624.1)	(56,437.1)	(1,066.5)		
Income before income tax	Rs. 28,924.0	Rs. 11,426.0	Rs. (751.3)	Rs. 39,598.7	US\$ 748.2		
Segment assets:							
Segment total assets	Rs. 2,093,593.9	Rs. 1,599,173.2	Rs. 301,668.6	Rs. 3,994,435.7	US\$ 75,480.7		

14. Commitments and contingencies

Commitments and contingent liabilities other than for off balance sheet financial instruments (see note 11) are as follows:

Capital commitments

The Bank has entered into committed capital contracts, principally for branch expansion and technology upgrades. The estimated amounts of contracts remaining to be executed on the capital account as of March 31, 2012 and September 30, 2012 aggregated Rs. 3,274.2 million and Rs. 2,431.3million, respectively.

Contingencies

The Bank is party to various legal proceedings in the normal course of business. Some of the provisions of indirect tax laws that have been recently promulgated remain open to interpretations. The Bank estimates the provision for these indirect taxes since no precedents exist which could be used as points of reference. The amount of claims against the Bank which are not acknowledged as debts as of September 30, 2012 aggregated to Rs. 3,356.9 million. The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank's results of operations, financial condition or cash flows. The Bank intends to vigorously defend these claims. Although the results of legal actions cannot be predicted with certainty, it is the opinion of management, after taking appropriate legal advice, that the likelihood of these claims becoming obligations of the Bank is remote and hence the resolution of these actions will not have a material adverse effect, if any, on the Bank's business, financial condition or results of operations.

Lease commitments

The bank is party to operating leases for certain of its office premises, employee residences and ATMs, with a renewal option of the Bank. The Bank has sub-leased certain of its properties taken on lease. The rental expenses and sub-lease income is as follows:

	As of September 30,		
	2011	2012	2012
	(In millions)		
The total minimum lease payments during the period recognized in the consolidated statement of income	Rs. 2,537.9	Rs. 2,912.0	US\$ 55.0
Sub-lease income recognized in the consolidated statement of income	Rs. 120.9	Rs. 109.1	US\$ 2.1

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The future minimum lease payments as of September 30, 2012 were as follows:

Year ending March 31,	Payments (In millions)	
2013	Rs. 5,566.3	US\$ 105.2
2014	5,136.0	97.1
2015	4,792.4	90.6
2016	4,561.3	86.2
2017	4,059.3	76.7
Thereafter	9,489.3	179.3
Total	Rs. 33,604.6	US\$ 635.1

The future minimum lease payments expected to be received under non-cancellable sub leases as of September 30, 2011 and September 30, 2012 were Rs. 784.2 million and Rs. 653.7 million, respectively.

15. Regulatory capital and capital adequacy

The Bank is a banking company within the meaning of the Indian Banking Regulation Act, 1949, registered with and subject to supervision by the RBI. Failure to meet minimum capital requirements could lead to regulatory actions by the RBI that, if undertaken, could have a material effect on the Bank and its financial position. As per the RBI's prudential norms on capital adequacy under the Basel I framework (Basel I), the Bank is required to maintain a Capital to Risk-weighted Asset Ratio of a minimum of 9%, for both credit risk and market risk. RBI has also issued its prudential guidelines on Capital Adequacy and Market Discipline Implementation of the New Capital Adequacy Framework (Basel II). The Bank has migrated to the new framework effective March 31, 2009. Under the Basel II guidelines, the Bank is required to maintain a minimum Capital to Risk-weighted Asset Ratio of 9% on an ongoing basis for credit risk, market risk and operational risk, with a minimum Tier 1 capital ratio of 6%. Further, the minimum capital maintained by the Bank as on September 30, 2012 is subject to a prudential floor, which is the higher of the following amounts:

- a) Minimum capital required as per the new framework (Basel II); or
- b) 80% of the minimum capital required to be maintained as per the Basel I framework.

The Bank's regulatory capital and capital adequacy ratios are measured in accordance with Indian GAAP and calculated under both the Basel I and Basel II frameworks, are as follows:

	March 31, 2012	Basel I, as of September 30, 2012 (In millions)	September 30, 2012	March 31, 2012	Basel II, as of September 30, 2012 (In millions)	September 30, 2012
Tier 1 capital	Rs. 281,135.6	Rs. 311,705.0	US\$ 5,890.1	Rs. 280,674.9	Rs. 311,220.5	US\$ 5,881.0
Tier 2 capital	118,989.7	155,362.7	2,935.8	118,989.7	155,362.7	2,935.8
Total capital	Rs. 400,125.3	Rs. 467,067.7	US\$ 8,825.9	Rs. 399,664.6	Rs. 466,583.2	US\$ 8,816.8
 Total risk-weighted assets and contingents	 Rs. 2,547,642.9	 Rs. 3,000,576.1	 US\$ 56,700.2	 Rs. 2,418,963.2	 Rs. 2,737,619.7	 US\$ 51,731.3

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Capital ratios of the Bank:				
Tier 1	11.04%	10.39%	11.60%	11.37%
Total capital	15.71%	15.57%	16.52%	17.04%
Minimum capital ratios required by the RBI:				
Tier 1	4.50%	4.50%	6.00%	6.00%
Total capital	9.00%	9.00%	9.00%	9.00%

16. Earnings per equity share

By a special resolution on July 6, 2011, the shareholders of the Bank approved a stock split resulting in a reduction in the par value of each equity share from Rs.10.0 to Rs. 2.0 per equity share effective as of July 16, 2011. All share/ADS and per share/ADS data reflect the effect of the stock split retroactively. One ADS continues to represent three shares.

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A reconciliation of the equity shares used in the computation of basic and diluted earnings per equity share has been provided below. Potential equity shares in the nature of ESOPs with average outstanding balance of 32.4 million and 17.5 million were excluded from the calculation of diluted earnings per share for the six months period ended September 30, 2011 and September 30, 2012, respectively, as these were anti-dilutive for the years.

	As of September 30,	
	2011	2012
Weighted average number of equity shares used in computing basic earnings per equity share	2,332,284,306	2,353,727,406
Effect of potential equity shares for stock options outstanding	22,543,919	9,165,044
Weighted average number of equity shares used in computing diluted earnings per equity share	2,354,828,225	2,362,892,450

The following are reconciliations of basic and diluted earnings per equity share and earnings per ADS.

	Six months ended September 30,		
	2011	2012	2012
Basic earnings per share	Rs. 8.58	Rs. 11.14	US\$ 0.21
Effect of potential equity shares for stock options outstanding	0.08	0.04	0.01
Diluted earnings per share	Rs. 8.50	Rs. 11.10	US\$ 0.20
Basic earnings per ADS	Rs. 25.74	Rs. 33.42	US\$ 0.63
Effect of potential equity shares for stock options outstanding	0.24	0.12	0.03
Diluted earnings per ADS	Rs. 25.50	Rs. 33.30	US\$ 0.60

17. Fair value measurement

FASB Accounting Standards Codification ASC 820 (Topic 820) Fair Value Measures and Disclosures, defines fair value, establishes a framework for measuring fair value in US GAAP, and expands disclosures about fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level of input	Definition
Level 1	Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.
Level 2	Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3	Inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy. These valuation methodologies were applied to all of the Bank's financial assets and financial liabilities carried at fair value. For Level 1 instruments the valuation is based upon the unadjusted quoted prices of identical instruments traded in active markets. For Level 2 instruments, where such quoted market prices are not available, the valuation is based upon the quoted prices for similar instruments in active markets, the quoted prices for identical or similar instruments in markets that are not active, prices quoted by market participants and prices derived from standard valuation methodologies or internally developed models that primarily use, as inputs, such as interest rates, yield curves, volatilities and credit spreads, which are available from public sources such as Reuters, Bloomberg and the Fixed Income Money Markets and Derivatives Association of India. The valuation methodology primarily includes discounted cash flow

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techniques. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Bank's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The valuation of Level 3 instruments is based on valuation techniques or models which use significant market unobservable inputs or assumptions.

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The Bank uses its quantitative pricing models to determine the fair value of its derivative instruments. These models use multiple market inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors to value the position that are observable directly or indirectly. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Bank's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Financial assets and financial liabilities measured at fair value on a recurring basis:

Available for Sale Securities: Available for sale investments are principally comprised of debt securities and are carried at fair value. Such fair values were based on quoted market prices, if available. If quoted market prices did not exist, fair values were estimated using the market yield on the balance period to maturity on similar instruments and similar credit risks. The fair values of asset-backed and mortgage-backed securities is estimated based on revised estimated cash flows at each balance sheet date, discounted at current market pricing for transactions with similar risk.

Trading Securities: Trading securities are carried at fair value based on quoted market prices or market observable inputs.

Held to maturity securities: There were no HTM securities as of March 31, 2012 and September 30, 2012.

The following table summarizes investments measured at fair value excluding investments carried at cost of Rs. 578.8 million on a recurring basis as of March 31, 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Particulars	Total	Fair Value Measurements Using	
		Quoted Prices In Active Markets for Identical Assets (Level 1) (In millions)	Significant other observable inputs (Level 2)
Trading account securities	Rs. 77,043.4	Rs. 77,043.4	Rs. 77,043.4
Securities Available-for-Sale	806,501.6	673.4	805,828.2
Total	Rs. 883,545.0	Rs. 673.4	Rs. 882,871.6

The following table summarizes investments measured at fair value excluding investments carried at cost of Rs. 619.8 million on a recurring basis as of September 30, 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Particulars	Total	Fair Value Measurements Using	
		Quoted Prices In Active Markets for Identical Assets (Level 1) (In millions)	Significant other observable inputs (Level 2)
Trading account securities	Rs. 51,174.8	Rs. 310.7	Rs. 50,864.1
Securities Available-for-Sale	825,885.0	738.8	825,146.2
Total	Rs. 877,059.8	Rs. 1,049.5	Rs. 876,010.3
	US\$ 16,573.3	US\$ 19.8	US\$ 16,553.5

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There have been no transfers between level 1 and 2 for the years ended March 31, 2012 and September 30, 2012.

Derivatives: The Bank enters into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants on its own account and for customers. These transactions enable customers to transfer, modify or reduce their foreign exchange and interest rate risks. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amount at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in Rupees.

The Bank uses its pricing models to determine the fair value of its derivative instruments. These models use market inputs that are observable directly or indirectly.

The following table summarizes derivative instruments measured at fair value on a recurring basis as of March 31, 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Particulars	Total	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative assets	Rs. 133,194.3	Rs.	Rs. 133,194.3	Rs.
Derivative liabilities	Rs. 127,932.3	Rs.	Rs. 127,932.3	Rs.

The following table summarizes derivative instruments measured at fair value on a recurring basis as of September 30, 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Particulars	Total	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative assets	Rs. 137,327.6	Rs.	Rs. 137,327.6	Rs.
Derivative liabilities	Rs. 133,971.3	Rs.	Rs. 133,971.3	Rs.

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TYLE="margin-top:18pt; margin-bottom:0pt; margin-left:4%; font-size:10pt; font-family:ARIAL">Retail Loan Asset Quality

For retail loans, we primarily use the loan's payment and delinquency status to monitor credit quality. The further a loan is past due, the greater the likelihood of future credit loss. These credit quality indicators are continually updated and monitored. Our retail loan portfolio remains predominantly focused on lending across the New England, Mid-Atlantic and Midwest regions, with continued geographic expansion outside the footprint with the auto finance and student lending portfolios. Originations within the footprint are primarily initiated through the branch network, whereas out-of-footprint lending is driven by indirect auto loans in dealer networks and student loans via our online platform.

The credit composition of our retail loan portfolio at March 31, 2014 remained favorable and well positioned across all product lines with an average refreshed FICO score of 753, down one point from December 31, 2013. Our real estate combined loan to value ratio, or CLTV, is calculated as the mortgage amount divided by the appraised value of the property and improved to 68.1% as of March 31, 2014 compared to 67.8% as of December 31, 2013. Excluding the SBO portfolio, the real

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estate CLTV was 65.8% as of March 31, 2014 compared to 65.1% as of December 31, 2013. The improvement in collateral composition is attributed to rising house values and the continued booking of loans with conservative CLTVs.

The net charge-off rate (core and non-core) of 0.83% for the three months ended March 31, 2014 decreased from 1.19% for the three months ended March 31, 2013. The overall rate of delinquent loans past due more than 30 days improved 10 basis points to 2.5% as of March 31, 2014, from 2.6% as of December 31, 2013.

Nonperforming retail loans of 2.4% as of March 31, 2014 improved seven basis points from December 31, 2013. The improvement in nonperforming retail loans was primarily driven by the return of \$45 million of current nonaccruing residential mortgage Troubled Debt Restructurings (TDR) to accruing status.

Special Topics HELOC Payment Shock

For further information regarding the possible HELOC payment shock, see Key Factors Affecting Our Business HELOC Payment Shock.

Troubled Debt Restructuring

TDR is the classification given to a loan that has been restructured in a manner that grants a concession to a borrower that is experiencing financial hardship that we would not otherwise make. TDRs typically result from our loss mitigation efforts and are undertaken in order to improve the likelihood of recovery and continuity of the relationship. Our loan modifications are handled on a case by case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet our borrower's financial needs. The types of concessions include interest rate reductions, term extensions, principal forgiveness and other modifications to the structure of the loan that fall outside lending policy. Depending on the specific facts and circumstances of the customer, restructuring can involve loans moving to nonaccrual, remaining on nonaccrual or continuing on accrual status. As of March 31, 2014, we had \$1.2 billion classified as retail TDRs, of which 38.9% were in nonaccrual status. Within this nonaccrual population, 60.9% were current in payment. TDRs generally return to accrual status once repayment capacity and appropriate payment history can be established. TDRs are evaluated for impairment individually. Loans are classified as TDRs until paid off, sold or refinanced at market terms.

For additional information regarding the troubled debt restructurings, see Note 1 Significant Accounting Policies and Note 5 Allowance for Credit Losses, Nonperforming Assets and Concentrations of Credit Risk to our audited consolidated financial statements included elsewhere in this prospectus.

The table below presents our retail TDRs in delinquent status as of March 31, 2014:

	Current	March 31, 2014		Total
		30-89 Days Past Due	90+ Days Past Due	
		(in millions)		
Recorded Investment:				
Residential, including originated home equity products	\$ 669	\$ 78	\$ 119	\$ 866
Home equity products serviced by others	103	5	5	113
Other secured retail	30	3		33

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Unsecured retail	187	10	3	200
Total	\$ 989	\$ 96	\$ 127	\$ 1,212

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The table below presents the accrual status of our retail TDRs as of March 31, 2014:

	Accruing	March 31, 2014 Nonaccruing (in millions)	Total
Recorded Investment:			
Residential, including originated home equity products	\$ 443	\$ 423	\$ 866
Home equity products serviced by others	77	36	113
Other secured retail	22	11	33
Unsecured retail	199	1	200
Total	\$ 741	\$ 471	\$ 1,212

Securities

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

	March 31, 2014		December 31, 2013		Change in Fair Value %
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	
(dollars in millions)					
Available-for-Sale Securities:					
U.S. Treasury	\$ 15	\$ 15	\$ 15	\$ 15	
State and political subdivisions	11	10	11	10	
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	17,394	17,455	14,970	14,993	16%
Other/non-agency	933	907	992	952	(5)
Total mortgage-backed securities	18,327	18,362	15,962	15,945	15
Total debt securities	18,353	18,387	15,988	15,970	15
Marketable equity securities	10	13	10	13	
Other equity securities	12	12	12	12	
Total equity securities	22	25	22	25	
Total available-for-sale securities	\$ 18,375	\$ 18,412	\$ 16,010	\$ 15,995	15%

Held to Maturity Securities:

Mortgage-backed securities:

Federal agencies and U.S. government sponsored entities	\$ 3,947	\$ 3,903	\$ 2,940	\$ 2,907	34%
Other/non-agency	1,510	1,492	1,375	1,350	11
Total held to maturity securities	5,457	5,395	4,315	4,257	27
 Total available-for-sale and held to maturity securities	 \$ 23,832	 \$ 23,807	 \$ 20,325	 \$ 20,252	 18%

As of March 31, 2014, the fair value of the available-for-sale and held to maturity securities portfolios increased by \$3.6 billion, or 18%, to \$23.8 billion, compared to \$20.3 billion as of December 31, 2013. U.S. Government-guaranteed notes and government sponsored entity-issued

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mortgage-backed securities comprise the majority of the securities portfolio holdings. Reinvestments have been directed predominantly into fixed-rate mortgage-backed securities, and as of March 31, 2014, the portfolio had an average expected life of 4.75 years.

The investment portfolio includes higher quality, highly liquid investments reflecting our ongoing commitment to maintaining appropriate contingent liquidity and pledging capacity. The portfolio composition has also been dominated by holdings backed by mortgages so that they can be pledged to the Federal Home Loan Banks (FHLBs). This has become increasingly important due to the enhanced liquidity requirements of the Liquidity Coverage Ratio (LCR). For further discussion of the LCR, see Regulation and Supervision Liquidity Standards.

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

Deposits

The table below presents the major components of our deposits as of the dates indicated:

	March 31, 2014	December 31, 2013 (dollars in millions)	Change	Percent (%)
Demand	\$ 25,681	\$ 24,931	\$ 750	3%
Checking with interest	13,694	13,630	64	
Regular savings	7,899	7,509	390	5
Money market accounts	30,689	31,245	(556)	(2)
Term deposits	9,499	9,588	(89)	(1)
Total deposits	87,462	86,903	559	1
Deposits held for sale	5,188	5,277	(89)	(2)
Total deposits and deposits held for sale	\$ 92,650	\$ 92,180	\$ 470	1%

Borrowed Funds

The tables below present our borrowed funds.

The following is a summary of our short-term borrowed funds:

March 31, 2014	December 31, 2013
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	(in millions)	
Federal funds purchased	\$ 417	\$ 689
Securities sold under agreements to repurchase	5,663	4,102
Other short-term borrowed funds	4,950	2,251
Total short-term borrowed funds	\$ 11,030	\$ 7,042

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

	For the Three Months Ended March 31, 2014	For the Year Ended December 31, 2013	For the Three Months Ended March 31, 2013
	(dollars in millions)		
Weighted-average interest rate at period end:			
Federal funds purchased and securities sold under agreements to repurchase	0.10%	0.09%	0.08%
Other short-term borrowed funds	0.26%	0.20%	
Maximum amount outstanding at month-end during the period:			
Federal funds purchased and securities sold under agreements to repurchase	\$ 7,022	\$ 5,114	\$ 3,709
Other short-term borrowed funds	4,950	2,251	750
Average amount outstanding during the period:			
Federal funds purchased and securities sold under agreements to repurchase	\$ 5,707	\$ 2,400	\$ 2,338
Other short-term borrowed funds	3,636	259	567
Weighted-average interest rate during the period:			
Federal funds purchased and securities sold under agreements to repurchase	0.12%	0.31%	0.47%
Other short-term borrowed funds	0.27%	0.44%	0.43%

The following is a summary of our long-term borrowed funds:

	March 31, 2014	December 31, 2013
	(in millions)	
Citizens Financial Group, Inc.:		
4.150% fixed subordinated debt, due 2022	\$ 350	\$ 350
5.158% fixed-to-floating subordinated debt, (LIBOR + 3.56%) callable, due 2023 ⁽¹⁾	333	333
4.771% fixed subordinated debt, due 2023 ⁽¹⁾	333	333
4.691% fixed subordinated debt, due 2024 ⁽¹⁾	334	334
1.860% subordinated debt, due 2035		
Banking Subsidiaries:		
Federal Home Loan advances due through 2033	26	25
Other	27	30
Total long-term borrowed funds	\$ 1,403	\$ 1,405

(1) Intercompany borrowed funds with the RBS Group. See Our Relationship with the RBS Group and Certain Other Related Party Transactions Relationship with the RBS Group Other and Note 18 Related Party Transactions to our audited consolidated financial statements included elsewhere in this prospectus.

Short-term unsecured borrowed funds are minimal and are offset by \$1.9 billion in average excess reserves held at Federal Reserve Banks as of March 31, 2014. Other borrowed funds include capital instruments and secured FHLB advances. Additionally, asset liquidity is considered strong. As of March 31, 2014, unencumbered high-quality securities totaled \$12.2 billion, unused FHLB capacity was approximately \$5.7 billion and unencumbered loans pledged at the Federal Reserve Banks created additional contingent borrowing capacity of approximately \$10.2 billion.

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Access to additional funding through repurchase agreements, collateralized borrowed funds or asset sales is available. Additionally, there is capacity to grow deposits. While access to short-term wholesale markets is limited, we have been able to meet our funding needs for the medium term with deposits and collateralized borrowed funds.

Derivatives

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

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

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

The table below presents our derivative assets and liabilities. For additional information regarding our derivative instruments, see Note 8 *Derivatives* to our unaudited interim consolidated financial statements included elsewhere in this prospectus.

	March 31, 2014			December 31, 2013			Changes in Net Liabilities (%)
	Notional Amount ⁽¹⁾	Derivative Assets	Derivative Liabilities (dollars in millions)	Notional Amount ⁽¹⁾	Derivative Assets	Derivative Liabilities	
Derivatives designated as hedging instruments:							
Interest rate swaps	\$ 5,500	\$ 22	\$ 320	\$ 5,500	\$ 23	\$ 412	(23)%
Derivatives not designated as hedging instruments:							
Interest rate swaps	29,808	628	533	29,355	654	558	(1)
Foreign exchange contracts	7,853	72	66	7,771	94	87	(14)
Other contracts	599	5	10	569	7	10	67
Total derivatives not designated as hedging instruments		705	609		755	655	(4)
Gross derivative fair values		727	929		778	1,067	(30)%

Less: Gross amounts offset in the consolidated balance sheets ⁽²⁾	(101)	(101)	(128)	(128)
Total net derivative fair values presented in the consolidated balance sheets ⁽³⁾	\$ 626	\$ 828	\$ 650	\$ 939

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- (1) The notional or contractual amount of interest rate derivatives and foreign exchange contracts is the amount upon which interest and other payments under the contract are based. For interest rate derivatives, the notional amount is typically not exchanged. Therefore, notional amounts should not be taken as the measure of credit or market risk as they tend to greatly overstate the true economic risk of these contracts.
- (2) Amounts represent the impact of legally enforceable master netting agreements that allow us to settle positive and negative positions.
- (3) We also offset assets and liabilities associated with repurchase agreements on our consolidated balance sheets. See Note 2 Securities to our unaudited interim consolidated financial statements included elsewhere in this prospectus for further discussion.

Analysis of Financial Condition December 31, 2013 Compared with December 31, 2012**Loans and Leases**

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

	December 31,			
	2013	2012	Change	Percent
	(dollars in millions)			(%)
Commercial	\$ 28,667	\$ 28,856	\$ (189)	(1)%
Commercial real estate	6,948	6,459	489	8
Leases	3,780	3,415	365	11
Total commercial	39,395	38,730	665	2
Residential, including originated home equity products	29,694	31,101	(1,407)	(5)
Home equity products serviced by others	2,171	2,960	(789)	(27)
Other secured retail	10,700	10,568	132	1
Unsecured retail	3,899	3,889	10	
Total retail	46,464	48,518	(2,054)	(4)
Total loans and leases⁽¹⁾	\$ 85,859	\$ 87,248	\$ (1,389)	(2)%

- (1) Excluded from the table above are loans totaling \$1.1 billion, which were reclassified to loans held for sale at December 31, 2013. For further discussion, see Note 17 Divestitures and Branch Assets and Liabilities Held for Sale to our audited consolidated financial statements included elsewhere in this prospectus.

Loan balances as of December 31, 2013, compared to December 31, 2012, reflect growth in total commercial offset by decreases in total retail, primarily in home equity products serviced by others and residential mortgages.

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

	December 31,		(Date of	Change from	Change from
	2013	2012	Designation)	2013-2012	2013-2009
	(dollars in millions)			(%)	(%)
			June 30, 2009		
Commercial	\$ 108	\$ 187	\$ 1,900	(42)%	(94)%
Commercial real estate	381	643	3,412	(41)	(89)
Total commercial	489	830	5,312	(41)	(91)
Residential, including originated home equity products	705	1,012	2,082	(30)	(66)
Home equity products serviced by others	2,160	2,897	6,180	(25)	(65)
Other secured retail ⁽¹⁾			4,037		(100)
Unsecured retail	406	869	2,490	(53)	(84)
Total retail	3,271	4,778	14,789	(32)	(78)
Total non-core loans	3,760	5,608	20,101	(33)	(81)
Other assets	81	106	378	(24)	(79)
Total non-core assets	\$ 3,841	\$ 5,714	\$ 20,479	(33)%	(81)%

⁽¹⁾ Other secured retail loans were either paid down, charged off, sold or transferred to the core loan portfolio by December 31, 2011.

Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. We have actively managed these loans down since they were designated as non-core on June 30, 2009. Since that time, the portfolio has decreased \$16.6 billion, including principal repayments of \$8.8 billion; charge-offs of \$3.8 billion; transfers back to the core portfolio of \$2.8 billion; and sales of \$1.2 billion.

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

During 2013, total non-core assets continued to decline to a balance of \$3.8 billion as of December 31, 2013, a decrease of \$1.9 billion, or 33%, compared to \$5.7 billion as of December 31, 2012. The larger than normal decrease was primarily driven by a non-core to core transfer of \$677 million of conforming student, certain home equity products serviced by others and residential mortgage loans in 2013. Commercial non-core balances of \$489 million

declined 41% compared to the prior year end balance of \$830 million, while non-core retail loans of \$3.3 billion decreased \$1.5 billion, or 32%, compared to \$4.8 billion as of December 31, 2012. The accounts transferred were good quality loans that met our credit policy standards. Non-core assets are expected to continue to decline through a combination of the factors described above.

The largest component of our non-core portfolio is our home equity products currently or formerly serviced by other firms, or SBO, portfolio. The SBO portfolio is a liquidating portfolio consisting of pools of home equity loans and lines of credit purchased between 2003 and 2007. Although our SBO portfolio consists of loans that were initially serviced by others, we now service a portion of this portfolio internally. SBO balances serviced externally totaled \$1.3 billion and \$1.6 billion as of

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December 31, 2013 and 2012, respectively. The SBO portfolio has been closed to new purchases since the third quarter of 2007, with exposure down to \$2.2 billion as of December 31, 2013 from \$5.5 billion as of December 31, 2009, representing an average annual liquidation rate of 20.7%. The SBO portfolio represents 7% of the entire real estate portfolio and 5% of the overall Consumer portfolio.

The credit profile of the SBO portfolio is significantly weaker than the core real estate portfolio, with a weighted-average refreshed FICO score of 690 and combined loan to value (CLTV) of 96.2% as of December 31, 2013. The proportion of the portfolio in second lien (subordinated) position is 97%. The amount of the portfolio in out of footprint geographies is 71.2%, with 21.4% concentrated in California, Nevada, Arizona and Florida.

Credit performance continues to improve due to portfolio liquidation (the lowest performing loans have already been charged off), more effective account servicing and collection strategies, and improvements in the real estate market. The delinquency rate of more than 90 days past due was 1.8% as of December 31, 2013, and decreased by 14 basis points from December 31, 2012. The SBO portfolio had a full year charge-off rate of 5.4% through December 31, 2013 and a cumulative (inception to date) charge-off rate of 26% as of December 31, 2013.

Allowance for Credit Losses and Nonperforming Assets

The allowance for credit losses totaled \$1.3 billion at both December 31, 2013 and 2012. Our allowance for loan and lease losses was 1.4% of total loans and 86.2% of nonperforming loans as of December 31, 2013 compared with 1.4% and 67.1% as of December 2012. The total loan portfolio credit performance continued to improve across all credit measures in 2013. Net charge-offs for the year ended December 31, 2013 of \$501 million decreased 42.7% compared to \$875 million for the year ended December 31, 2012, primarily driven by decreases in the non-core, real estate secured, and unsecured retail portfolios. The portfolio net charge-off rate fell to 0.59% for the year ended December 31, 2013 from 1.01% for the year ended December 31, 2012. The delinquency rate improved to 1.9% as of December 31, 2013 compared to 2.5% as of December 31, 2012. Nonperforming loans totaled \$1.4 billion, or 1.7%, of the total portfolio as of December 31, 2013, as compared to \$1.9 billion, or 2.1%, of the total loan portfolio as of December 31, 2012. At December 31, 2013, \$607 million of nonperforming loans had been designated as impaired and had no specific allowance because they had been written down to the fair value of their collateral. These loans included \$530 million of retail loans and \$77 million of commercial loans. Excluding impaired loans that have been written down to net realizable value, the allowance to nonperforming loans ratio totaled 151% at December 31, 2013 as compared to 106% at December 31, 2012.

Commercial Loan Asset Quality

During 2013, the quality of the commercial loan portfolio improved. As of December 31, 2013, total criticized loans decreased 37.0% to 4.9%, or \$1.9 billion, of the commercial loan portfolio compared to 7.9%, or \$3.0 billion, as of December 31, 2012. Commercial real estate criticized balances decreased 50.4% to 8.4%, or \$582 million, of the commercial real estate portfolio compared to 18.2%, or \$1.2 billion, as of December 31, 2012. Commercial real estate accounted for 30.4% of the criticized loans as of December 31, 2013 compared to 38.6% as of December 31, 2012. See Note 5 Allowance for Credit Losses, Nonperforming Assets and Concentrations of Credit Risk to our audited consolidated financial statements included elsewhere in this prospectus for further discussion.

Similarly, nonperforming balances and charge-offs have displayed a positive trend in 2013. As of December 31, 2013, nonperforming commercial balances decreased \$345 million, to \$265 million, compared to \$610 million as of December 31, 2012, with a 60% decline in commercial real estate nonperforming loans over the same period. As of December 31, 2013, nonperforming loans stood at 0.7% of the commercial loan portfolio compared to 1.6% as of December 31, 2012. Likewise, net

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charge-offs in our commercial loan portfolio for the year ended December 31, 2013 decreased \$123 million, to \$21 million compared to \$144 million for the year ended December 31, 2012, primarily due to lower gross charge-offs. This improvement was driven by improved economic conditions and a strategic focus on high quality new business.

Retail Loan Asset Quality

The credit composition of our retail loan portfolio remained favorable and well positioned across all product lines with an average refreshed FICO score of 754 (Prime) as of December 31, 2013, unchanged from December 31, 2012. Our real estate combined loan to value ratio, or CLTV, is calculated as the mortgage amount divided by the appraised value of the property and improved to 67.8% as of December 31, 2013 compared to 74.8% as of December 31, 2012. Excluding the SBO portfolio, the real estate CLTV was 65.1% as of December 31, 2013 compared to 71.4% as of December 31, 2012. The favorable reduction in CLTV was driven by recent improvements in home values and higher quality originations.

The annual net charge-off rate (core and non-core) of 1.0% in 2013 decreased 45 basis points from the prior year, driven by SBO, HELOCs, and residential mortgage loans. The overall rate of delinquency more than 30 days past due improved 36 basis points to 2.6% as of December 31, 2013, from 3.0% as of December 31, 2012. The improvement was driven by improvement across all products except HELOC, which is experiencing mild deterioration as regulatory changes have increased the foreclosure backlog and the effects of payment shock start to materialize. For further information regarding the possible HELOC payment shock, see **Key Factors Affecting Our Business HELOC Payment Shock**.

Nonperforming retail loans of 2.5% as of December 31, 2013 improved 11 basis points from December 31, 2012. The improvement in nonperforming retail loans was primarily driven by the return of \$178 million of current nonaccruing residential mortgage Troubled Debt Restructurings, or TDRs, to accruing status in December 2013. In general, nonaccruing TDRs can be returned to accruing status after a sustained period of performance if the loan is supported by a well-documented evaluation of the borrower's financial condition. Refer to the discussion of Nonperforming Loans and Leases in Note 1 **Significant Accounting Policies** to our audited consolidated financial statements included elsewhere in this prospectus for further information.

Special Topics HELOC Payment Shock

For further information regarding the possible HELOC payment shock, see **Key Factors Affecting Our Business HELOC Payment Shock**.

Troubled Debt Restructuring

As of December 31, 2013, we had \$1.2 billion classified as retail TDRs, of which 40.8% were in nonaccrual status. Within this nonaccrual population, 61.4% were current in payment. TDRs generally return to accrual status once repayment capacity and appropriate payment history can be established. TDRs are evaluated for impairment individually. Loans are classified as TDRs until paid off, sold or refinanced at market terms.

For additional information regarding the troubled debt restructurings, see Note 1 **Significant Accounting Policies** and Note 5 **Allowance for Credit Losses, Nonperforming Assets and Concentrations of Credit Risk** to our audited consolidated financial statements included elsewhere in this prospectus.

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The table below presents our retail TDRs in delinquent status as of December 31, 2013:

	Current	December 31, 2013		Total
		30-89 Days Past Due	90+ Days Past Due	
Recorded Investment:				
Residential, including originated home equity products	\$ 649	\$ 78	\$ 125	\$ 852
Home equity products serviced by others	104	4	4	112
Other secured retail	31	3	1	35
Unsecured retail	185	12	4	201
Total	\$ 969	\$ 97	\$ 134	\$ 1,200

The table below presents the accrual status of our retail TDRs as of December 31, 2013:

	Accruing	December 31, 2013		Total
		(in millions)		
Recorded Investment:				
Residential, including originated home equity products	\$ 410	\$ 442		\$ 852
Home equity products serviced by others	79	33		112
Other secured retail	23	12		35
Unsecured retail	199	2		201
Total	\$ 711	\$ 489		\$ 1,200

Table of Contents**Securities**

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

	December 31, 2013		December 31, 2012		Change in Fair Value (%)
	Amortized Cost	Fair Value (dollars in millions)	Amortized Cost	Fair Value	
Available-for-Sale Securities:					
U.S. Treasury	\$ 15	\$ 15	\$ 15	\$ 15	
State and political subdivisions	11	10	20	21	(52)%
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	14,970	14,993	16,368	16,904	(11)
Other/non-agency	992	952	1,452	1,397	(32)
Total mortgage-backed securities	15,962	15,945	17,820	18,301	(13)
Total debt securities	15,988	15,970	17,855	18,337	(13)
Marketable equity securities	10	13	5	7	86
Other equity securities	12	12	12	12	
Total equity securities	22	25	17	19	32
Total available-for-sale securities	\$ 16,010	\$ 15,995	\$ 17,872	\$ 18,356	(13)%
Held to Maturity Securities:					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	\$ 2,940	\$ 2,907	\$	\$	NM
Other/non-agency	1,375	1,350			NM
Total held to maturity securities	4,315	4,257			NM
Total available-for-sale and held to maturity securities	\$ 20,325	\$ 20,252	\$ 17,872	\$ 18,356	10%

In 2013, we transferred \$4.2 billion of federal agency and non-agency debt securities from the available-for-sale securities portfolio to the held to maturity securities portfolio. At the time of transfer, \$134 million of unrealized net losses were recognized in OCI. The amounts in OCI will be recognized in interest income over the remaining life of the securities as an offset to the adjustment of yield in a manner consistent with the amortization of premium and the accretion of discount. The resulting net realized yield on the held to maturity securities will remain unchanged from the original book yield.

As of December 31, 2013, the fair value of the available-for-sale and held to maturity securities portfolios increased by \$1.9 billion, or 10%, to \$20.3 billion compared to \$18.4 billion as of December 31, 2012. U.S.

Government-guaranteed notes and government sponsored entity-issued mortgage-backed securities comprise the majority of the securities portfolio holdings. Reinvestments have been directed predominantly into fixed rate mortgage-backed securities, and, as of December 31, 2013, the portfolio had an average expected life of 4.6 years. As long-term interest rates rose during the latter half of 2013, investment in agency mortgage-backed securities increased.

The investment portfolio includes higher quality, highly liquid investments reflecting our ongoing commitment to maintain appropriate contingent liquidity and pledging capacity. The portfolio composition has also been dominated by holdings backed by mortgages so that they can be pledged

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to the Federal Home Loan Banks. This has become increasingly important due to the enhanced liquidity requirements of the liquidity coverage ratio, or LCR. For further discussion of the LCR, see Regulation and Supervision Liquidity Standards.

In 2013, the securities portfolio income of the available-for-sale and held to maturity securities portfolios decreased \$140 million, or 24%, to \$446 million compared to \$586 million in 2012, and the yield on the portfolio was 2.50%. The portfolio yield decreased by 38 basis points, driven by faster prepayments in the mortgage-backed securities portfolio coupled with securities sales programs during the year. In 2013, mortgage-backed securities maturities, principal paydowns, and sales totaled \$8.2 billion, and mortgage-backed securities purchases totaled \$10.7 billion.

Deposits

The table below presents the major components of our deposits:

	December 31,			
	2013	2012	Change	Percent
	(dollars in millions)			(%)
Demand	\$ 24,931	\$ 25,931	\$ (1,000)	(4)%
Checking with interest	13,630	14,577	(947)	(6)
Regular savings	7,509	7,874	(365)	(5)
Money market accounts	31,245	35,102	(3,857)	(11)
Term deposits	9,588	11,664	(2,076)	(18)
 Total deposits	 86,903	 95,148	 (8,245)	 (9)
Deposits held for sale	5,277		5,277	NM
 Total deposits and deposits held for sale	 \$ 92,180	 \$ 95,148	 \$ (2,968)	 (3)%

As of December 31, 2013, total deposits decreased \$8.2 billion, or 9%, to \$86.9 billion compared to \$95.1 billion as of December 31, 2012. The decrease was primarily due to \$5.3 billion in deposits that were reclassified to deposits held for sale at December 31, 2013. See Note 17 Divestitures and Branch Assets and Liabilities Held for Sale to our consolidated financial statements included elsewhere in this prospectus for further discussion.

Excluding the impact of the deposits held for sale reclassification, total deposits as of December 31, 2013 declined \$3.0 billion, or 3%, compared to December 31, 2012. Term deposits decreased \$2.1 billion, or 18%, reflecting continued runoff of higher cost term deposits. Money market accounts decreased 11% from December 31, 2012. All other deposit balances were flat year-over-year.

Borrowed Funds

The tables below present our borrowed funds.

The following is a summary of our short-term borrowed funds:

	December 31,	
	2013	2012
	(in millions)	
Federal funds purchased	\$ 689	\$ 1,905
Securities sold under agreements to repurchase	4,102	1,696
Other short-term borrowed funds	2,251	501
Total short-term borrowed funds	\$ 7,042	\$ 4,102

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

	As of and for the Year Ended December 31,		
	2013	2012	2011
(dollars in millions)			
Weighted-average interest rate at year end:			
Federal funds purchased and securities sold under agreements to repurchase	0.09%	0.10%	0.06%
Other short-term borrowed funds	0.20%	0.29%	0.20%
Maximum amount outstanding at month-end during the year:			
Federal funds purchased and securities sold under agreements to repurchase	\$ 5,114	\$ 4,393	\$ 6,406
Other short-term borrowed funds	2,251	5,050	4,000
Average amount outstanding during the year:			
Federal funds purchased and securities sold under agreements to repurchase	\$ 2,400	\$ 2,716	\$ 3,808
Other short-term borrowed funds	259	3,045	2,645
Weighted-average interest rate during the year:			
Federal funds purchased and securities sold under agreements to repurchase	0.31%	0.22%	0.12%
Other short-term borrowed funds	0.44%	0.33%	2.51%

The following is a summary of our long-term borrowed funds:

	December 31,	
	2013	2012
(in millions)		
Citizens Financial Group, Inc.:		
4.150% fixed subordinated debt, due 2022	\$ 350	\$ 350
5.158% fixed-to-floating subordinated debt, (LIBOR + 3.56%) callable, due 2023 ⁽¹⁾	333	
4.771% fixed subordinated debt, due 2023 ⁽¹⁾	333	
4.691% fixed subordinated debt, due 2024 ⁽¹⁾	334	
1.860% subordinated debt, due 2035		289
Banking Subsidiaries:		
Federal Home Loan advances due through 2033	25	27
Other	30	28
Total long-term borrowed funds	\$ 1,405	\$ 694

⁽¹⁾ Intercompany borrowed funds with the RBS Group. See Our Relationship with the RBS Group and Certain Other Related Party Transactions Relationship with the RBS Group Other and Note 18 Related Party Transactions to our audited consolidated financial statements included elsewhere in this prospectus.

Short-term unsecured borrowed funds of \$689 million were more than offset by \$1.4 billion in average excess reserves held at the Federal Reserve Banks as of December 31, 2013. Other borrowed funds include repurchase agreements and secured FHLB advances. The increase in total short-term borrowed funds relative to the year-earlier period reflected balance sheet growth, primarily securities. Further, excluding the \$689 million in federal funds purchased, the remainder of the short-term funding position, or \$6.4 billion, represented secured and stable sources. Additionally, asset liquidity was considered strong. As of December 31, 2013, unencumbered high-quality securities totaled \$10.5 billion, unused FHLB capacity was approximately \$8.2 billion and unencumbered loans pledged to the Federal Reserve Banks created additional contingent borrowing capacity of approximately \$10.4 billion.

Table of Contents**Derivatives**

Historically, we have used pay-fixed interest rate swaps to synthetically lengthen liabilities and offset duration in fixed-rate assets. Given the material prepayment of fixed-rate mortgages and home equity loans since 2008, these swaps were no longer needed and have been terminated or allowed to run off, resulting in a reduction in the notional balance of these swaps from \$3.7 billion as of December 31, 2012 to \$1.5 billion as of December 31, 2013.

We use receive-fixed swaps to minimize the exposure to variability in the interest cash flows on our floating rate assets. This is reflected in the interest rate swaps line in the table below. As of December 31, 2013, a notional amount of \$4.0 billion of receive-fixed swaps had been executed. The assets and liabilities recorded for derivatives designated as hedges reflect the market value of these hedge instruments.

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

The table below presents our derivative assets and liabilities. For additional information regarding our derivative instruments, see Note 15 Derivatives to our audited consolidated financial statements included elsewhere in this prospectus.

	December 31, 2013			December 31, 2012			Changes in net Liabilities (%)
	Notional Amount ⁽¹⁾	Derivative Assets	Derivative Liabilities (dollars in millions)	Notional Amount ⁽¹⁾	Derivative Assets	Derivative Liabilities	
Derivatives designated as hedging instruments:							
Interest rate swaps	\$ 5,500	\$ 23	\$ 412	\$ 4,200	\$ 1	\$ 257	52%
Derivatives not designated as hedging instruments:							
Interest rate swaps	29,355	654	558	31,227	1,102	1,033	39
Foreign exchange contracts	7,771	94	87	5,978	71	67	75
Other contracts	569	7	10	2,815	35	15	(115)
Total derivatives not designated as hedging instruments							
		755	655		1,208	1,115	8
Gross derivative fair values							
		778	1,067		1,209	1,372	7%
Less: Gross amounts offset in the consolidated balance sheets ⁽²⁾							
		(128)	(128)		(54)	(54)	
Total net derivative fair values presented in the consolidated balance sheets ⁽³⁾							
		\$ 650	\$ 939		\$ 1,155	\$ 1,318	

- (1) The notional or contractual amount of interest rate derivatives and foreign exchange contracts is the amount upon which interest and other payments under the contract are based. For interest rate derivatives, the notional amount is typically not exchanged. Therefore, notional amounts should not be taken as the measure of credit or market risk as they tend to greatly overstate the true economic risk of these contracts.
- (2) Amounts represent the impact of legally enforceable master netting agreements that allow us to settle positive and negative positions.
- (3) We also offset assets and liabilities associated with repurchase agreements on our consolidated balance sheets. See Note 3 Securities to our audited consolidated financial statements included elsewhere in this prospectus for further discussion.

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Quarterly Results of Operations

The following table sets forth unaudited quarterly consolidated statements of operations data and consolidated balance sheet data as of and for the quarter ended March 31, 2014, the four quarters of 2013 and the last three quarters of 2012. We have prepared the statement of operations data and balance sheet data on the same basis as the audited consolidated financial statements and the unaudited interim consolidated financial statements included elsewhere in this prospectus and, in the opinion of management, each statement of operations and balance sheet includes all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the results of operations and balance sheet data as of and for these periods. This information should be read in conjunction with the audited consolidated financial statements and the unaudited interim consolidated financial statements and, in each case, the related notes included elsewhere in this prospectus.

Table of Contents**Summary Consolidated Financial and Other Data (unaudited)**

	As of and for the Three Months Ended							
	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
	(dollars in millions, except per share amounts)							
Interest								
Interest	\$ 808	\$ 779	\$ 770	\$ 749	\$ 760	\$ 772	\$ 810	\$ 810
Interest	358	379	383	437	433	390 ⁽¹⁵⁾	422	422
Revenue	1,166	1,158	1,153	1,186	1,193	1,162	1,232	1,232
Provision for								
losses	121	132	145	112	90	103	109	109
Interest	810	818 ⁽¹¹⁾	788	5,252 ⁽¹³⁾	821	895 ⁽¹⁶⁾	791	810
Income (loss)								
before income								
tax expense	235	208	220	(4,178)	282	164	332	332
Income tax	69	56 ⁽¹²⁾	76	(273) ⁽¹⁴⁾	99	63	123	123
Income	\$ 166	\$ 152	\$ 144	\$ (3,905)	\$ 183	\$ 101	\$ 209	\$ 209
Income								
per								
share								
and								
(pro								
vided) ⁽¹⁾	\$ 0.36	\$ 0.33	\$ 0.31	\$ (8.56)	\$ 0.40	\$ 0.22	\$ 0.46	\$ 0.46
Income								
per								
share								
and								
(\$ 49,087.34	\$ 44,990.27	\$ 42,297.29	\$ (1,154,559.32)	\$ 54,139.78	\$ 30,048.31	\$ 61,843.18	\$ 63,140.00

ating

on e on (2)(3)	3.48%	3.12%	2.91%	(13.94)%	3.07%	1.65%	3.45%	3.
on e total (3)(4)	0.54	0.50	0.49	(2.77)	0.60	0.32	0.65	0.
erest (3)(5)	2.89%	2.83%	2.88%	2.82%	2.84%	2.80	2.88%	2.
ce Data:								
assets and (6)	\$ 126,892	\$ 122,154	\$ 120,074	\$ 117,833	\$ 126,044	\$ 127,053	\$ 131,580	\$ 128,7
ance for and lease	87,083	85,859	85,493	85,006	85,782	87,248	86,941	87,6
	1,259	1,221	1,219	1,200	1,219	1,255	1,347	1,4
ies	24,804	21,245	20,852	17,408	18,066	19,417	21,341	22,1
will	6,876	6,876	6,876	6,876	11,311	11,311	11,311	11,3
ies	107,450	102,958	100,661	98,223	101,837	102,924	107,471	104,9
its ⁽⁷⁾	87,462	86,903	93,930	91,361	94,628	95,148	96,481	92,9
l funds used and ies sold								
ments to hase	6,080	4,791	3,424	3,371	3,709	3,601	3,241	2,9
erm ved	4,950	2,251	2	2	11	501	4,002	6,0
erm ved	1,403	1,405	1,064	732	692	694	697	3
olders	19,442	19,196	19,413	19,610	24,207	24,129	24,109	23,8

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As of and for the Three Months Ended
March 31, 2014 December 31, 2013 September 30, 2013 June 30, 2013 March 31, 2013 December 31, 2012 September 30, 2012 June 30, 2012
(dollars in millions, except per share amounts)

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%	1.43%	1.41%	1.42%	1.44%	1.55%	1.70%
Allowance for loan and lease losses as a percentage of nonperforming loans and leases	92%	86%	72%	69%	67%	67%	75%	89%
Nonperforming loans and leases as a percentage of total loans and leases	1.57%	1.65%	1.98%	2.06%	2.14%	2.14%	2.08%	1.91%
Capital ratios:								
Tier 1 capital ratio ⁽⁸⁾	13.4%	13.5%	14.0%	14.3%	14.5%	14.2%	14.1%	13.8%
Total capital ratio ⁽⁹⁾	16.0%	16.1%	16.3%	16.3%	16.2%	15.8%	15.7%	15.0%
Tier 1 common equity ratio ⁽¹⁰⁾	13.4%	13.5%	13.9%	14.3%	14.2%	13.9%	13.8%	13.5%
Leverage ratio ⁽¹¹⁾	11.4%	11.6%	12.1%	11.8%	12.5%	12.1%	11.9%	11.7%

(1) 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.

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

(3) Ratios for the periods above are presented on an annualized basis.

(4) We define Return on average total assets as net income (loss) divided by average total 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, \$307 million, \$429 million, \$550 million, \$646 million, \$594 million and \$564 million as of March 31, 2014, December 31, 2013, September 30, 2013, June 30, 2013, March 31, 2013, December 31, 2012, September 30, 2012 and June 30, 2012, 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) Includes \$26 million of restructuring charges.

(13) Includes \$9 million of tax benefit related to restructuring charges.

(14) Includes \$4,435 million of goodwill impairment charge.

(15) Includes \$355 million of tax benefit related to the goodwill impairment charge.

(16) Includes \$23 million loss on the sale of a commercial real estate portfolio.

(17) Includes \$77 million settlement of defined benefit pension plan obligations to vested former employees and \$5 million reversal of prior restructuring charges.

(18) Includes \$33 million of net tax benefit related to the loss on sale of commercial real estate portfolio, settlement of the defined benefit pension plan obligations, and reversal of restructuring charges.

(19) Includes \$75 million gain on the sale of Visa Class B shares.

(20) Includes \$26 million of tax expense related to the gain on the sale of Visa Class B shares.

Capital

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

Under current Basel I regulation, the Federal Reserve Board requires us to maintain minimum levels with respect to our total capital, Tier 1 capital and leverage ratios. The minimum standards for the total capital ratio (the ratio of our total risk-based capital, which is the sum of our Tier 1 and Tier 2 capital, as defined by Federal Reserve Board regulation, to total risk-weighted assets) and the Tier 1 capital ratio (the ratio of our Tier 1 capital

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

In July 2013, the U.S. bank regulatory agencies approved final regulatory capital rules that implement the Basel III capital framework and certain provisions of the Dodd-Frank Act. We will be required to comply with these rules beginning on January 1, 2015, with certain aspects of the rules phasing in through 2018. For further discussion of the capital rules to which we will be subject, see Regulation and Supervision Capital.

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

Regulatory Ratio	Regulatory Ratios as of March 31, 2014 Basel I vs. Basel III Rules Pro Forma Basel III Ratios and Requirements (including adoption of U.S. Standardized Approach Risk-Weighted Assets) Required Minimum + Well Capitalized Required Minimum Capital for Conservation Purposes of Prompt Corrective Action					
	Actual Basel I Ratio	Required Minimum	Well Capitalized Minimum for Purposes of Prompt Corrective Action	Pro Forma Basel III Ratio ⁽¹⁾	Buffer for Non-Leverag Ratios	of Prompt Corrective Action ⁽²⁾
Tier 1 Capital to Risk-Weighted Assets (Tier 1 capital ratio)	13.4%	4.0%	6.0%	13.1%	8.5%	8.0%
Total Capital to Risk-Weighted Assets (Total capital ratio)	16.0	8.0	10.0	15.7	10.5	10.0
Tier 1 Capital to Average Total Assets (Leverage ratio)	11.4	3.0	5.0	11.4	4.0	5.0
Common Equity Tier 1 Capital to Risk-Weighted Assets	Not Applicable	Not Applicable	Not Applicable	13.1	7.0	6.5

⁽¹⁾ These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see Principal Components of Operations and Key Performance Metrics Used By Management Key Performance Metrics and Non-GAAP Financial Measures.

- (2) The Basel III well capitalized minima for purposes of prompt corrective action for bank holding companies have not yet been finalized. The percentages shown are the expected well capitalized minima based upon the current well capitalized minima for insured depository institutions.

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

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Economic Capital requirements. Our capital planning process is supported by a robust governance framework. This process includes: capital management policies and procedures that document capital adequacy metrics and limits, as well as our comprehensive capital contingency plan, and the active engagement of both the legal-entity boards and senior management in oversight and decision-making.

Forward-looking assessments of capital adequacy for us and for our banking subsidiaries feed development of capital plans that are submitted to the Federal Reserve Board and other bank regulators. We prepare these plans in full compliance with the Federal Reserve Board's Capital Plan Rule and participate in the Federal Reserve Board's annual CCAR stress-testing process. Both we and our banking subsidiaries also participate in semiannual stress tests required by the Dodd-Frank Act. Within this regulatory framework, we may only execute capital actions in accordance with a capital plan that the Federal Reserve Board has reviewed and to which the Federal Reserve Board has not objected. In March 2014, the Federal Reserve Board objected on qualitative grounds to our capital plan submitted as part of the CCAR 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. For further discussion of our 2014 capital plan, see Regulation and Supervision Dividends.

During 2013, we completed the following capital actions:

paid common dividends of \$40 million, \$55 million, \$50 million and \$40 million in the first, second, third and fourth quarters of 2013, respectively;

redeemed \$289 million of floating rate junior subordinated deferrable interest debentures due March 4, 2034 from a special purpose subsidiary, which caused the redemption of \$280 million of our trust preferred securities from the RBS Group in the second quarter of 2013;

through CBPA, we redeemed \$10 million of floating rate junior subordinated deferrable interest debentures due April 22, 2032, which caused redemption of \$10 million of our trust preferred securities from third parties in the fourth quarter of 2013;

paid a special common dividend of \$333 million and issued \$333 million of 10-year subordinated debt (5.158% fixed-to-floating callable subordinated debt due June 29, 2023) to RBS in the second quarter of 2013;

paid a special common dividend of \$333 million to RBS and issued \$333 million of 10-year subordinated debt (4.771% fixed subordinated debt due October 1, 2023) to the RBS Group in the third quarter of 2013; and

paid a special common dividend of \$334 million to RBS and issued \$334 million of 10-year subordinated debt (4.691% fixed subordinated debt due January 2, 2024) to the RBS Group in the fourth quarter of 2013. In addition, in March 2014, we paid \$25 million in common dividends, which was the final action under our 2013 capital plan.

The final three actions in 2013, which aggregate to \$1.0 billion of exchange transactions, were undertaken to produce a more-balanced capital structure without impacting our overall level of qualifying regulatory capital. Even after execution of these actions, both common equity Tier 1 and Tier 1 capital, calculated using Basel III definitions, were 13.1% as of December 31, 2013, well above their respective Basel III minima, including the capital conservation buffer, of 7.0% and 8.5%, respectively. Exchanging common equity for the same amount of Tier 2 subordinated debt has no

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impact on either the level of total capital or the total risk-based capital ratio. Our pro forma Basel III total risk-based capital ratio after giving effect to all Basel III impacts also remained strong at 15.7% versus the Basel III minimum, including the capital conservation buffer, of 10.5%. These pro forma Basel III ratios are non-GAAP financial measures. For more information on computation of these non-GAAP financial measures, see [Principal Components of Operations and Key Performance Metrics Used By Management](#) Key Performance Metrics and Non-GAAP Financial Measures.

As a result of the goodwill impairment recognized by CBNA in the second quarter of 2013, CBNA must request specific approval from the OCC before executing capital distributions. This requirement will be in place through the fourth quarter of 2015. See [Dividend Policy](#) for further details. However, as of December 31, 2013, we on a non-consolidated basis had liquid assets in excess of \$554 million compared to an annual interest burden on existing subordinated debt of approximately \$63 million.

Liquidity

We define liquidity as an institution's ability to meet its cash-flow and collateral obligations in a timely manner, at a reasonable cost. An institution must maintain current liquidity to fund its daily operations and forecasted cash-flow needs as well as contingent liquidity to deliver funding in a stress scenario. We consider the effective and prudent management of liquidity to be fundamental to our health and strength.

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

CFG Liquidity

Our primary sources of cash are (i) dividends from equity investments in our banking subsidiaries and (ii) externally issued subordinated debt (\$350 million). Our uses of liquidity include the following: (i) routine cash flow requirements as a bank holding company, including payments of dividends, interest and expenses; (ii) needs of subsidiaries, including our banking subsidiaries, for additional equity and, as required, their needs for debt financing; and (iii) extraordinary requirements for cash, such as acquisitions.

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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. As we increase subordinated debt in exchange for common equity, our funding costs will increase to reflect the incremental debt service.

Our cash and cash equivalents represent a source of liquidity that can be used to meet various needs. As of March 31, 2014, we held cash and cash equivalents of \$540 million. This should be viewed as a liquidity reserve.

Our liquidity risk is low, for four reasons. First, we have no material non-banking subsidiaries and our banking subsidiaries are self-funding. Second, we have no outstanding senior debt. Third, the capital structures of our banking subsidiaries are similar to our capital structure. As of March 31, 2014, our double leverage ratio (the combined equity of our subsidiaries divided by our equity) was 102.0%. Fourth, our other cash flow requirements, such as operating expenses, are relatively small.

Banking Subsidiaries Liquidity

In the ordinary course of business, the liquidity of CBNA and CBPA is managed by matching sources and uses of cash. The primary sources of bank liquidity include (i) deposits from our consumer and commercial franchise customers; (ii) payments of principal and interest on loans and debt securities; and (iii) as needed and as described below under Liquidity Risk Management and Governance, wholesale borrowings. The primary uses of bank liquidity include (i) withdrawals and maturities of deposits; (ii) payment of interest on deposits; (iii) funding of loan commitments; and (iv) funding of securities purchases. To the extent that the banks have relied on wholesale borrowings, uses also include payments of related principal and interest.

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

During 2014, CBNA is expected to issue \$250 million in new subordinated debt to us. Additionally, CBNA is also expected to issue a total of \$660 million in subordinated debt to us in exchange for common equity held by us. Also during 2014, CBPA is expected to issue \$300 million in subordinated debt to us in exchange for common equity held by us. Additionally during 2014, CBPA is expected to issue \$85 million in new subordinated debt to us. Because of the increased proportion of subordinated debt vs. common equity in the capital structure of both CBNA and CBPA, funding costs will increase to reflect the incremental debt service costs.

Liquidity Risk

We define liquidity risk as the risk that we or either of our banking subsidiaries will be unable to meet our payment obligations in a timely manner. We manage liquidity risk at the consolidated enterprise level, and for each material legal entity including us, CBNA and CBPA. Liquidity risk can arise due to asset liquidity risk and/or funding liquidity risk.

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

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

Table of Contents**Factors Affecting Liquidity**

Given the composition of their assets and borrowing sources, asset liquidity at both CBNA and CBPA would be materially affected by such events as deterioration of financing markets for high-quality securities (e.g., mortgage-backed securities and other instruments issued by the Government National Mortgage Association, or GNMA, the Federal National Mortgage Association, or FNMA and the Federal Home Loan Mortgage Corporation, or FHLMC), by any incapacitation of the Federal Home Loan Banks, or FHLBs, to provide collateralized advances and/or by a refusal of the Federal Reserve Board to act as lender of last resort in systemic stress. Given the quality of our free securities, the positive track record of the FHLBs in stress and the commitment of the Federal Reserve Board to continue as lender of last resort in systemic stress scenarios, we view asset liquidity risk at our banking subsidiaries, both CBNA and CBPA, to be relatively modest.

Given the structure of their balance sheets, funding liquidity of CBNA and CBPA would be materially affected by an adverse idiosyncratic event (e.g., a major loss, causing a perceived or actual deterioration in its financial condition), an adverse systemic event (e.g., default or bankruptcy of a significant capital markets participant), or a combination of both (e.g., the financial crisis of 2008-10). However, during the financial crisis, our banking subsidiaries reduced their dependence on unsecured wholesale funding to virtually zero. Consequently, and despite ongoing exposure to a variety of idiosyncratic and systemic events, we view our funding liquidity risk to be relatively modest.

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

	March 31, 2014		
	Moody's	Standard and Poor (S)	Fitch
Citizens Financial Group, Inc.:			
Long-term issuer	NR	BBB+	BBB+
Short-term issuer	NR	A-2	F2
Subordinated debt	NR	BBB	BBB
Citizens Bank, N.A.:			
Long-term issuer	A3	A-	BBB+
Short-term issuer	P-2	A-2	F2
Citizens Bank of Pennsylvania:			
Long-term issuer	A3	A-	BBB+
Short-term issuer	P-2	A-2	F2

NR = Not rated

(1) On May 7, 2014, Standard & Poor's lowered Citizens Financial Group, Inc.'s stand-alone credit profile to A- from A.

Changes in our public credit ratings could affect both the cost and availability of our wholesale funding. Because of current credit ratings, CBNA and CBPA have limited access to unsecured wholesale funding. As a result and in order

to maintain a conservative funding profile, our banking subsidiaries continue to minimize reliance on unsecured wholesale funding. At March 31, 2014, the majority of wholesale funding consisted of secured borrowings using high-quality liquid securities sold under agreements to repurchase (repurchase agreements) and secured FHLB advances using high-quality residential loan collateral. Our dependence on unsecured and credit-sensitive funding continues to be relatively low.

Existing and evolving regulatory liquidity requirements represent another key driver of systemic liquidity conditions and liquidity management practices. The Federal Reserve Board evaluates our

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liquidity as part of the supervisory process, and the Federal Reserve Board recently issued regulations that will require us to conduct regular liquidity stress testing over various time horizons and to maintain a buffer of highly liquid assets sufficient to cover expected net cash outflows and projected loss or impairment of funding sources for a short-term liquidity stress scenario. See Regulation and Supervision Enhanced Prudential Standards. In addition, the Basel Committee has developed a set of internationally-agreed upon quantitative liquidity metrics: the LCR and the Net Stable Funding Ratio (NSFR).

The LCR was developed to ensure banks have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. In October 2013, the U.S. federal banking regulators proposed a rule to implement a modified version of the LCR in the United States, which would apply to large bank holding companies as we are. 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. Achieving LCR compliance may require changes in the size and/or composition of our investment portfolio, the configuration of our discretionary wholesale funding portfolio, and our average cash position. While the specific LCR requirements have not yet been finalized, and hence the extent of and impact from related implementation strategies cannot be quantified, at present, we expect to be fully compliant with the LCR by the required implementation date.

The NSFR was developed to provide a sustainable maturity structure of assets and liabilities and has a time horizon of one year. The Basel Committee contemplates that the NSFR, including any revisions, will be implemented as a minimum standard by January 1, 2018; however, the federal banking regulators have not yet proposed rules to implement the NSFR in the United States.

We continue to review these liquidity requirements, and to develop implementation plans and liquidity strategies. We expect to be fully compliant with the final rules on or prior to the applicable effective date.

Liquidity Risk Management and Governance

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

The mission of our Wholesale Funding and Liquidity unit is to deliver prudent levels of current, projected and contingent liquidity from stable sources, in a timely manner and at a reasonable cost, without significant adverse consequences.

We seek to accomplish this mission by funding loans with stable deposits; by prudently controlling dependence on wholesale funding, particularly unsecured funding; and by maintaining ample available liquidity, including a liquidity buffer of unencumbered high-quality loans and securities. As of March 31, 2014:

Core deposits continued to be our primary source of funding and our consolidated period-end loan-to deposit ratio was 95.48% and includes loans and deposits held for sale;

Unsecured wholesale funding was relatively low, at \$1.1 billion, substantially offset by excess cash balances held at the Federal Reserve Banks, defined as total reserves held less required reserves of \$1.9 billion;

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Asset liquidity remained robust at \$19.4 billion: net overnight position, defined as federal funds sold plus excess balances held at the Federal Reserve Banks minus federal funds purchased, totaled \$1.5 billion; unencumbered liquid securities totaled \$12.2 billion; and available FHLB capacity secured by mortgage loans totaled \$5.7 billion; and

Available discount window capacity, defined as available total borrowing capacity from the federal reserve based on identified collateral, is secured by non-mortgage commercial and consumer loans, and totaled \$10.2 billion. Use of this borrowing capacity would likely be considered only during exigent circumstances. The Wholesale Funding and Liquidity unit monitors a variety of liquidity and funding metrics, including specific risk threshold limits. The metrics are broadly classified as follows:

Current liquidity sources and capacities, including excess cash at the Federal Reserve Banks, free and liquid securities and available and secured FHLB borrowing capacity;

Contingent stressed liquidity, including idiosyncratic, systemic and combined stress scenarios, in addition to evolving regulatory requirements such as the Liquidity Coverage Ratio and the Net Stable Funding Ratio; and

Current and prospective exposures, including secured and unsecured wholesale funding and spot and cumulative cash-flow gaps across a variety of horizons.

Further, certain of these metrics are monitored for each of us, our banking subsidiaries, and for our consolidated enterprise on a daily basis, including net overnight position, free securities, internal liquidity, available FHLB borrowing capacity and total asset liquidity. In order to identify emerging trends and risks and inform funding decisions, specific metrics are also forecasted over a one-year horizon.

For the three months ended March 31, 2014, our operating activities contributed \$700 million in net cash, including sales of mortgage loans net of originations, which added \$45 million, and a decrease in other assets, which added \$280 million. For the three months ended March 31, 2014, net cash used by investing activities was \$5.0 billion, primarily reflecting net available-for-sale securities portfolio purchases of \$3.7 billion, partially offset by proceeds from maturities, paydowns and sales of available-for-sale securities of \$1.4 billion. Additionally, held to maturity securities portfolio purchases of \$1.2 billion occurred during the period. Finally, for the three months ended March 31, 2014, cash contributed by financing activities was \$4.4 billion, including a net increase in deposits of \$470 million, and \$4.0 billion in federal funds purchased and securities sold under agreements to repurchase and other short term borrowed funds. These activities represented a cumulative increase in cash and cash equivalents of \$95 million, which, when added to cash and cash equivalents of \$2.8 billion at the beginning of the period, resulted in an ending balance of cash and cash equivalents of \$2.9 billion as of March 31, 2014.

For the three months ended March 31, 2013, aggregate operating activities contributed \$722 million in net cash. Significant items within this category included net income of \$183 million and a decrease in other assets of \$367 million. For the three months ended March 31, 2013, investing activities contributed net cash of \$548 million, primarily reflecting purchases of available-for-sale securities of \$1.9 billion, offset by proceeds from maturities, paydowns and sales of available-for-sale securities of \$3.1 billion. Finally, financing activities utilized net cash of \$944 million, primarily reflecting a decrease in deposits of \$520 million, a net decrease in short-term borrowed funds

of \$489 million and a net increase in federal funds purchased and securities sold under agreements to repurchase of \$108 million. Together, these activities resulted in a cumulative increase in cash and cash equivalents of \$326 million. When added to the cash and cash equivalents balance of \$3.1 billion at the beginning of the period, the result was an ending cash and cash equivalents balance of \$3.4 billion at March 31, 2013.

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For the year ended December 31, 2013, our operating activities contributed \$2.6 billion in net cash, including sales of mortgage loans net of originations which, added \$448 million, and a decrease in other assets, which added \$827 million. For the year ended December 31, 2013, net cash contributed by investing activities decreased by \$2.5 billion, primarily reflecting net available-for-sale securities portfolio purchases of \$11.0 billion, partially offset by proceeds from maturities, paydowns and sales of available-for-sale securities of \$8.4 billion. Finally, for the year ended December 31, 2013, cash used in financing activities was \$502 million, including a net decrease in deposits of \$3.0 billion, and \$1.2 billion in dividends paid to RBS. These activities represented a cumulative decrease in cash and cash equivalents of \$306 million, which, when added to cash and cash equivalents of \$3.1 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of \$2.8 billion as of December 31, 2013.

For the year ended December 31, 2012, aggregate operating activities contributed \$1.7 billion in net cash. Significant items within this category included net income of \$643 million and deferred income taxes of \$306 million. For the year ended December 31, 2012, investing activities contributed net cash of \$919 million, primarily reflecting purchases of available-for-sale securities of \$5.5 billion and an increase in loans and leases of \$1.4 billion, more than offset by proceeds from maturities, paydowns and sales of available-for-sale securities of \$9.4 billion. Finally, financing activities utilized net cash of \$3.3 billion, primarily reflecting an increase in deposits of \$2.6 billion, a net decrease in short-term borrowed funds of \$2.6 billion, repayments of long-term borrowed funds of \$2.9 billion, and a net decrease in federal funds purchased and securities sold under agreements to repurchase of \$551 million. Together, these activities resulted in a cumulative decrease in cash and cash equivalents of \$631 million. When added to the cash and cash equivalents balance of \$3.7 billion at the beginning of the year, the result was an ending cash and cash equivalents balance of \$3.1 billion at December 31, 2012.

Contractual Obligations

The following table presents our outstanding contractual obligations as of December 31, 2013:

	Total	Less than 1 year	1 to 3 years (in millions)	3 to 5 years	After 5 years
Long-term debt	\$ 1,405	\$	\$ 9	\$ 30	\$ 1,366
Operating lease obligations	896	173	307	203	213
Time deposits	9,588	7,444	1,450	687	7
Purchase obligations ⁽¹⁾	581	456	87	38	
	\$ 12,470	\$ 8,073	\$ 1,853	\$ 958	\$ 1,586

⁽¹⁾ Includes purchase obligations for goods and services covered by non-cancellable contracts and contracts including cancellation fees.

Table of Contents**Off Balance Sheet Commitments**

The following table presents our outstanding off balance sheet commitments. See Note 16 Commitments, Guarantees and Contingencies to our audited consolidated financial statements included elsewhere in this prospectus for further discussion:

	As of December 31,			
	2013	2012	Change	Percent
	(dollars in millions)			(%)
Commitment amount:				
Undrawn commitments to extend credit	\$ 53,987	\$ 50,507	\$ 3,480	7%
Financial standby letters of credit	2,556	3,082	(526)	(17)
Performance letters of credit	149	152	(3)	(2)
Commercial letters of credit	64	103	(39)	(38)
Marketing rights	54	57	(3)	(5)
Risk participation agreements	17	30	(13)	(43)
Residential mortgage loans sold with recourse	13	17	(4)	(24)
Total	\$ 56,840	\$ 53,948	\$ 2,892	5%

Critical Accounting Estimates

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

An accounting estimate requires assumptions and judgments about uncertain matters that could have a material effect on our consolidated financial statements. Estimates are made using facts and circumstances known at a point in time. Changes in those facts and circumstances could produce results substantially different from those estimates. The most significant accounting policies and estimates and their related application are discussed below.

See Note 1 Significant Accounting Policies in our consolidated financial statements included elsewhere in this prospectus for further discussion of our significant accounting policies.

Allowance for Credit Losses

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

The allowance for loan and lease losses and reserve for unfunded lending commitments could be affected by a variety of internal and external factors. Internal factors include portfolio performance such as delinquency levels, assigned risk ratings, the mix and level of loan balances, differing economic risks associated with each loan category and the

financial condition of specific borrowers. External factors include fluctuations in the general economy, unemployment rates, bankruptcy filings, developments within a particular industry, changes in collateral values and factors particular to a specific commercial credit such as competition, business and management performance. The allowance for loan and lease losses may be adjusted to reflect our current assessment of various

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qualitative risks, factors and events that may not be measured in our statistical procedures. There is no certainty that the allowance for loan and lease losses and reserve for unfunded lending commitments will be appropriate over time to cover losses because of unanticipated adverse changes in any of these internal, external or qualitative factors.

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

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

For most non-impaired retail loan portfolio types, the allowance for loan and lease losses is based upon the incurred loss model utilizing the probability of default (PD), loss given default (LGD) and exposure at default on an individual loan basis. When developing these factors, we may consider the loan product and collateral type, LTV ratio, lien position, borrower's credit, time outstanding, geographic location, delinquency status and incurred loss period. Incurred loss periods are reviewed and updated at least annually, and potentially more frequently when economic situations change rapidly, as they tend to fluctuate with economic cycles. Incurred loss periods are generally longer in good economic times and shorter in bad times.

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

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

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

The above measures are all used to assess the PD and LGD for HELOC borrowers for whom we originated the loans. There is also a portfolio of home equity products that were originated and serviced by others (SBO); however, we currently service some of the loans in this portfolio. The SBO portfolio is modeled as a separate class and the reserves for this class are generated by using the delinquency roll rate models as described below.

For student loan and SBO portfolios, we estimate the allowance for loan loss by utilizing a delinquency roll rate model. For such a model, the portfolio is segmented by delinquency category (e.g. 30 days past due, 60 days past due, etc.) The purpose of this segmentation is to evaluate the probability of a loan flowing into the next delinquency stage category, within one month. The projected rate for each delinquency category is the moving average of the previous 12 months rates, although the number of months used could vary by loan type, with the current month from the previous two years included to adjust for seasonality. For the portfolios utilizing the incurred loss model, roll rate models are also run as challenger models and can be used to support management overlays if deemed necessary. At a macro level, retail losses for all portfolio types may be affected by factors such as collateral values, unemployment rates and local economic conditions.

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

Changes in the levels of estimated losses, even if minor, can significantly affect management's determination of an appropriate allowance for loan and lease losses. For consumer loans, losses are affected by such factors as loss severity, collateral values, economic conditions, and other factors. A 1% and 5% increase in the estimated loss rate for consumer loans at December 31, 2013 would have increased the allowance by \$5 million and \$25 million, respectively. The allowance for loan and lease losses for our Commercial Banking segment is sensitive to assigned credit risk ratings and inherent loss rates. If 10% and 20% of the December 31, 2013 period ending loan balances (including unfunded commitments) within each risk rating category of our Commercial Banking segment had experienced downgrades of two risk categories, the allowance for loan and lease losses would have increased by \$32 million and \$64 million, respectively, as of December 31, 2013.

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

For additional information regarding the allowance for loan and lease losses and reserve for unfunded lending commitments, see Note 1 Significant Accounting Policies and Note 5 Allowance for

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Credit Losses, Nonperforming Assets and Concentrations of Credit Risk to our audited consolidated financial statements included elsewhere in this prospectus.

Nonperforming Loans and Leases

Commercial loans, commercial real estate loans and leases are generally placed on nonaccrual status when contractually past due 90 days or more, or earlier if management believes that the probability of collection is insufficient to warrant further accrual. Some of these loans and leases may remain on accrual status when contractually past due 90 days or more if management considers the loan collectible. A loan may be returned to accrual status if (i) principal and interest payments have been brought current and we expect repayment of the remaining contractual principal and interest, (ii) the loan or lease has otherwise become well-secured and in the process of collection, or (iii) the borrower has been making regularly scheduled payments in full for the prior 6 months and it is reasonably assured that the loan or lease will be brought fully current within a reasonable period. Cash receipts on nonaccruing loans and leases are generally applied to reduce the unpaid principal balance.

Residential mortgages are generally placed on nonaccrual status when past due 120 days, or sooner if determined to be collateral-dependent. Residential mortgages are returned to accrual status when principal and interest payments become less than 120 days past due and when future payments are reasonably assured. Credit card balances (included in the unsecured retail class of loans) are placed on nonaccrual status when past due 90 days or more. Credit card balances are restored to accruing status if they subsequently become less than 90 days past due. Government guaranteed student loans (included in the unsecured class of loans) are not placed on nonaccrual status.

All other retail loans are generally placed on nonaccrual status when past due 90 days or more, or earlier if management believes the probability of collection is insufficient to warrant further accrual. Loans less than 90 days past due may be placed on nonaccrual status upon the death of the borrower, surrender or repossession of collateral, fraud or bankruptcy. Loans are generally returned to accrual status if the loan becomes less than 15 days past due. Cash receipts on nonaccruing loans and leases are generally applied to reduce the unpaid principal balance. Certain TDRs that are current in payment status are classified as nonaccrual in accordance with regulatory guidance. Income on these loans is generally recognized on a cash basis if management believes the remaining book value of the loan is realizable. Nonaccruing TDRs that meet the guidelines above for accrual status can be returned to accruing if supported by a well-documented evaluation of the borrower's financial condition, and if they have been current for at least 6 months.

Additional information regarding our nonperforming loans and leases can be found in Note 5 Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit risk, to our audited consolidated financial statements included elsewhere in this prospectus.

Impaired Loans

A loan is considered to be impaired when it is probable that we will be unable to collect all of the contractual interest and principal payments as scheduled in the loan agreement. Impaired loans include nonaccruing larger balance (greater than \$3 million carrying value) non-homogenous commercial and commercial real estate loans, and restructured loans that are deemed TDRs. A loan modification is identified as a TDR when we, or a bankruptcy court, grants the borrower a concession that we would not otherwise make in response to the borrower's financial difficulties. Concessions granted in TDRs for all classes of loans may include lowering the interest rate, forgiving a portion of principal, extending the loan term, lowering scheduled payments for a specified period of time, principal forbearance, or capitalizing past due amounts. A rate increase can be a concession if the increased rate is lower than a market rate for debt with risk similar to that of the restructured loan. Additionally, TDRs for commercial loans may also involve

creating a multiple note structure, accepting non-cash

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assets, accepting an equity interest, or receiving a performance-based fee. In some cases a TDR may involve multiple concessions. The financial effects of TDRs for all loan classes may include lower income (either due to a lower interest rate or a delay in the timing of cash flows), larger loan loss provisions and accelerated charge-offs if the modification renders the loan collateral-dependent. In some cases, interest income throughout the term of the loan may increase if, for example, the loan is extended or the interest rate is increased as a result of the restructuring.

Impairment evaluations are performed at the individual loan level, and consider expected future cash flows from the loan, including, if appropriate, the realizable value of collateral. Impaired loans that are not TDRs are nonaccruing, and loans involved in TDRs may be accruing or nonaccruing. Retail loans that were discharged in bankruptcy and not reaffirmed by the customer are generally deemed to be collateral-dependent TDRs and are charged off to the fair value of the collateral, less cost to sell, and less amounts recoverable under a government guarantee (if any). Recently issued regulatory guidance on bankruptcy-discharged TDRs permits banks to apply judgment in the evaluation of the probability of loan repayment. As a result of the new guidance (which was issued in February 2014), loans for which we have documented that repayment is likely to occur need not be charged down to collateral value. Cash receipts on nonaccruing impaired loans, including nonaccruing loans involved in TDRs, are generally applied to reduce the unpaid principal balance.

Loans are generally restored to accrual status when principal and interest payments are brought current and when future payments are reasonably assured, following a sustained period of repayment performance by the borrower in accordance with the loan's contractual terms.

For additional information regarding our impaired loans, see Note 1 "Significant Accounting Policies" and Note 5 "Allowance for Credit Losses, Nonperforming Assets and Concentrations of Credit Risk" to our audited consolidated financial statements included elsewhere in this prospectus.

Fair Value

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

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

Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar instruments; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by market data for substantially the full term of the asset or liability; and

Level 3. Unobservable inputs that are supported by little or no market information and that are significant to the fair value measurement.

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

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Significant assets measured at fair value on a recurring basis include our available-for-sale mortgage-backed securities. These instruments are priced using an external pricing service and are classified as Level 2 within the fair value hierarchy. The service's pricing models use predominantly observable valuation inputs to measure the fair value of these securities under both the market and income approaches. The pricing service utilizes a matrix pricing methodology to price our U.S. agency pass-through securities, which involves making adjustments to to-be-announced security prices based on a matrix of various mortgage-backed securities characteristics such as weighted-average maturities, indices and other pool-level information. Other agency and non-agency mortgage-backed securities are priced using a discounted cash flow methodology. This methodology includes estimating the cash flows expected to be received for each security using projected prepayment speeds and default rates based on historical statistics of the underlying collateral and current market conventions. These estimated cash flows are then discounted using market-based discount rates that incorporate characteristics such as average life, volatility, ratings, performance of the underlying collateral, and prevailing market conditions.

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

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

For additional information regarding our fair value measurements, see Note 1 Significant Accounting Policies, Note 3 Securities, Note 9 Mortgage Banking and Note 15 Derivatives to our audited consolidated financial statements included elsewhere in this prospectus.

Goodwill

Goodwill is an asset that represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is not amortized, but is subject to annual impairment tests. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. A reporting unit is a business operating segment or a component of a business operating segment. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is deemed to be not impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment.

The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangible assets as if the reporting unit were being acquired in a business combination. If the implied fair value of goodwill exceeds the

carrying value of goodwill

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assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

We review goodwill for impairment annually as of October 31 (previously as of September 30) or more often if events or circumstances indicate that it is more likely than not that the fair value of one or more reporting units is below its carrying value. We rely on the income approach (discounted cash flow method) as the primary method for determining fair value. Market-based methods are used as benchmarks to corroborate the value determined by the discounted cash flow method.

We rely on several assumptions when estimating the fair value of our reporting units using the discounted cash flow method. These assumptions include the current discount rate, as well as projected loan losses, income taxes and capital retention rates. Discount rates are estimated based on the Capital Asset Pricing Model, which considers the risk-free interest rate, market risk premium, beta and unsystematic risk and size premium adjustments specific to a particular reporting unit. The discount rates are also calibrated on the assessment of the risks related to the projected cash flows of each reporting unit. Multi-year financial forecasts are developed for each reporting unit by considering several key business drivers such as new business initiatives, customer retention standards, market share changes, anticipated loan and deposit growth, forward interest rates, historical performance and industry and economic trends, among other considerations. The long-term growth rate used in determining the terminal value of each reporting unit was estimated based on management's assessment of the minimum expected terminal growth rate of each reporting unit, as well as broader economic considerations such as gross domestic product and inflation.

We corroborate the fair value of our reporting units determined by the discounted cash flow method using market-based methods: a comparable company method and a comparable transaction method. The comparable company method measures fair value of a business by comparing it to publicly traded companies in similar lines of business. This involves identifying and selecting the comparable companies based on a number of factors (i.e., size, growth, profitability, risk and return on investment), calculating the market multiples (i.e., price-to-tangible book value, price-to-cash earnings and price-to-net income) of these comparable companies and then applying these multiples to our operating results to estimate the value of the reporting unit's equity on a marketable, minority basis. A control premium is then applied to this value to estimate the fair value of the reporting unit on a marketable, controlling basis. The comparable transaction method measures fair value of a business based on exchange prices in actual transactions and on asking prices for controlling interests in public or private companies currently offered for sale. The process involves comparison and correlation of ourselves with other similar companies. Adjustments for differences in factors described earlier (i.e., size, growth, profitability, risk and return on investment) are also considered.

The valuation of goodwill is dependent on forward-looking expectations related to the performance of the U.S. economy and our associated financial performance. The prolonged delay in the full recovery of the U.S. economy, and the impact of that delay on earnings expectations, prompted a goodwill impairment test as of June 30, 2013. Although the U.S. economy has demonstrated signs of recovery, notably improvements in unemployment and housing, the pace and extent of recovery in these indicators, as well as in overall gross domestic product, have lagged previous expectations. The impact of the slow recovery is most evident in our Consumer Banking reporting unit. Accordingly, the percentage by which the estimated fair value of our Consumer Banking reporting unit exceeded its carrying value declined from 7% at December 31, 2011 to 5% at December 31, 2012.

During the first half of 2013, we observed further deceleration of expected growth for our Consumer Banking reporting unit's future profits based on forecasted economic growth for the U.S.

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economy and the continuing impact of the new regulatory framework in the financial industry. This deceleration was incorporated into our revised earnings forecast in the second quarter of 2013, and we subsequently concluded that there was a likelihood of greater than 50% that goodwill impairment had occurred as of June 30, 2013.

An interim goodwill impairment test was subsequently performed for our Consumer Banking and Commercial Banking reporting units. Step One of these tests indicated that (1) the fair value of our Consumer Banking reporting unit was less than its carrying value by 19% and (2) the fair value of our Commercial Banking reporting unit exceeded its carrying value by 27%. Step Two of the goodwill impairment test was subsequently performed for our Consumer Banking reporting unit, which resulted in the recognition of a pretax \$4.4 billion impairment charge in our Consolidated Statement of Operations for the period ending June 30, 2013. The impairment charge, which was a non-cash item, had minimal impact on our Tier 1 and total capital ratios. The impairment charge had no impact on our liquidity position or tangible common equity.

We performed an annual test for impairment of goodwill for both reporting units as of October 31, 2013. As of this testing date, the percentage by which the fair value of our Consumer Banking reporting unit exceeded its carrying value was 21%, and the percentage by which the fair value of our Commercial Banking reporting unit exceeded its carrying value was 31%.

We based the fair value estimates used in our annual goodwill impairment testing on assumptions we believe to be representative of assumptions that a market participant would use in valuing the reporting units but that are unpredictable and inherently uncertain, including estimates of future growth rates and operating margins and assumptions about the overall economic climate and the competitive environment for our reporting units. There can be no assurances that future estimates and assumptions made for purposes of goodwill testing will prove accurate predictions of the future. If the assumptions regarding business plans, competitive environments or anticipated growth rates are not achieved, we may be required to record goodwill impairment charges in future periods.

For additional information regarding our goodwill impairment testing, see Note 1 Significant Accounting Policies and Note 8 Goodwill to our audited consolidated financial statements included elsewhere in this prospectus.

Income Taxes

Accrued income taxes are reported as a component of either other assets or other liabilities, as appropriate, in the audited consolidated balance sheets and reflect our estimate of income taxes to be paid or that effectively have been prepaid. Deferred income tax assets and liabilities represent the amount of future income taxes to be paid or that effectively have been prepaid, and the net balance is reported as an asset or liability in the audited consolidated balance sheets. We determine the realization of the deferred tax asset based upon an evaluation of the four possible sources of taxable income: (1) the future reversals of taxable temporary differences; (2) future taxable income exclusive of reversing temporary differences and carryforwards; (3) taxable income in prior carryback years; and (4) tax planning strategies. In projecting future taxable income, we utilize forecasted pretax earnings, adjust for the estimated book-tax differences and incorporate assumptions, including the amount of income allocable to taxing jurisdictions. These assumptions require significant judgment and are consistent with the plans and estimates that we use to manage the underlying businesses. The realization of the deferred tax assets could be reduced in the future if these estimates are significantly different than forecasted.

We are subject to income tax in the United States and multiple state and local jurisdictions. The tax laws and regulations in each jurisdiction may be interpreted differently in certain situations, which could result in a range of outcomes. Thus, we are required to exercise judgment regarding the

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application of these tax laws and regulations. We will evaluate and recognize tax liabilities related to any tax uncertainties. Due to the complexity of some of these uncertainties, the ultimate resolution may differ from the current estimate of tax liabilities or refunds.

Our estimate of accrued income taxes, deferred income taxes and income tax expense can also change in any period as a result of new legislative or judicial guidance impacting tax positions, as well as changes in income tax rates. Any changes, if they occur, can be significant to our audited consolidated financial position, results of operations or cash flows.

For additional information regarding income taxes, see Note 1 Significant Accounting Policies and Note 14 Income Taxes to our audited consolidated financial statements included elsewhere in this prospectus.

Risk Governance and Quantitative and Qualitative Disclosures About Risk

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

To enable the Board to carry out its objectives, it has delegated authority for risk management activities, as well as governance and oversight of those activities, to a number of Board and executive management level risk committees. The key committees that specifically consider risk across the enterprise are set out in the diagram below.

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Chief Risk Officer

The Chief Risk Officer, or CRO, directs our overall risk management function overseeing the compliance, regulatory, operational and credit risk management. In addition, the CRO has oversight of the management of market, liquidity and strategic risks. The CRO reports to our CEO and Board Risk Committee.

Risk Framework

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

First Line of Defense

The business lines (including their associated support functions) are the First Line of Defense and are accountable for owning and managing, within our defined risk appetite, the risks which exist in their respective business areas. The business lines are responsible for performing regular risk assessments to identify and assess the material risks that arise in their area of responsibility, complying with relevant risk policies, testing and certifying the adequacy and effectiveness of their controls on a regular basis, establishing and documenting operating procedures and establishing and owning a governance structure for identifying and managing risk.

Second Line of Defense

The Second Line of Defense includes independent monitoring and control functions accountable for developing and ensuring implementation of risk and control frameworks, oversight of risk, financial management and valuation, and regulatory compliance. This centralized risk function is appropriately independent from the business and is accountable for overseeing and challenging our business lines on the effective management of their risks. This risk function utilizes training, communications and awareness to provide expert support and advice to the business lines. This includes interpreting the risk policy standards and risk management framework, overseeing compliance by the businesses with policies and responsibilities, including providing relevant management information and escalating concerns where appropriate.

The Executive Risk Committee, chaired by the CRO, actively considers our inherent material risks, analyzes our overall risk profile and seeks confirmation that the risks are being appropriately identified, assessed and mitigated.

Third Line of Defense

Our internal audit function is the Third Line of Defense acting as an independent appraisal and assurance function. As an independent assurance function, internal audit ensures the key business risks are being managed to an acceptable level and that the risk management and internal control framework is operating effectively. Independent assessments are provided to our Audit Committee on a monthly basis and to the Board and executive management in the form of quarterly opinions.

Risk Appetite

Risk Appetite is a strategic business and risk management tool. We define our risk appetite as the maximum limit of acceptable risk beyond which we would either be unable to achieve our strategic objectives and capital adequacy obligations or would assume an unacceptable amount of risk to do so. The Board Risk Committee advises our Board of Directors in relation to current and potential future risk strategy, including determination of risk appetite and

tolerance.

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The principal non-market risks to which we are subject are: credit risk, operational risk, liquidity risk, strategic risk and reputational risk. We are also subject to market risks. Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and/or other relevant market rates or prices. Market risk does not result from proprietary trading, which we prohibit. Rather, modest market risk arises from trading activities that serve customer needs, including hedging of interest rate and foreign exchange risk. As described below, more material market risk arises from our non-trading banking activities, such as loan origination and deposit-gathering. We have established enterprise-wide policies and methodologies to identify, measure, monitor and report market risk. We actively manage both trading and non-trading market risks. We are also subject to liquidity risk, discussed above under **Liquidity**.

Our risk appetite framework and risk limit structure establishes guidelines to determine the balance between existing and desired levels of risk and supports the implementation, measurement and management of our risk appetite policy.

Credit Risk

Overview

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

Objective

The credit risk management organization is responsible for approving credit transactions, monitoring portfolio performance, identifying problem loans, and ensuring remedial management.

Organizational Structure

Management and oversight of credit risk is the responsibility of the Chief Credit Officers (CCO). Although there is substantial overlap between our consumer and commercial risk management functions and our business segments, Consumer Banking and Commercial Banking, as well as Other, the allocation of a line of business to either Consumer Banking or Commercial Banking for accounting purposes does not necessarily align with our risk management categories. The relevant CCO and their teams oversee the management of credit risk activities, under the guidance of the CRO. There are additional matrix reporting lines for the CCOs and CRO that tie into the segment executive management, as well as the RBS Group Credit Risk Management. From a commercial perspective, it is likely that some matrix reporting lines will continue into the RBS Group Risk functions for as long as we are majority owned by the RBS Group.

The credit risk teams operate independently from the business lines to ensure decisions are not influenced by unbalanced objectives. Each team is comprised of senior credit officers who possess extensive experience structuring and approving loans.

Governance

The primary mechanisms used to govern our credit risk function are our consumer and commercial credit policies. These policies outline the minimum acceptable lending standards that align with our desired risk appetite. Material issues or changes are identified by the individual committees and presented to the Combined Credit Risk Committee, Executive Risk Committee and the Board for approval as required.

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Key Management Processes

To ensure credit risks are managed within our risk appetite and business and risk strategies are achieved, we employ a comprehensive and integrated control program. The program's objective is to proactively (1) identify, (2) measure, (3) monitor, and (4) mitigate existing and emerging credit risks across the lifecycle (origination, account management/portfolio management, and loss mitigation and recovery).

On the consumer banking side of credit risk, our teams use models to evaluate consumer loans across the lifecycle of the loan. Starting at origination, credit scoring models are used to forecast the probability of default of an applicant. These models are embedded in the loan origination system, which allows for real-time scoring and automated decisions for many of our products. Periodic validations are performed on our purchased and proprietary scores to ensure fit for purpose. When approving customers for a new loan or extension of an existing credit line, credit scores are used in conjunction with other credit risk variables such as affordability, length of term, collateral value, collateral type, and lien subordination.

The origination process is supported by dedicated underwriting teams that reside in the business line. The size of each team depends on the intensity of the approval process as the number of handoffs, documentation, and verification requirements differ substantially depending on the loan product.

To ensure proper oversight of the underwriting teams, lending authority is granted by credit risk to each underwriter. The amount of delegated authority depends on the experience of the individual. We periodically evaluate the performance of each underwriter and annually reauthorize their delegated authority. Only senior members of the credit risk team are authorized to grant significant exceptions to credit policies. It is not uncommon to make exceptions to established policies when compensating factors are present. These exceptions are capped at 5% of origination volume and tracked separately to ensure performance expectations are achieved.

Once an account is established, credit scores and collateral values are refreshed at regular intervals to allow for proactive identification of increasing or decreasing levels of credit risk. For accounts with contingent liability (revolving feature), credit policies have been developed that leverage the refreshed customer data to determine if a credit line should be increased, decreased, frozen, or closed. Lastly, behavioral modeling, segmentation, and loan modifications are used to cure delinquency, reduce the severity of loss, and maximize recoveries. Our approach to managing credit risk is highly analytical and, where appropriate, is automated, to ensure consistency and efficiency.

One of the central tools used to manage credit risk is the Consumer and Small Business Credit Risk Dashboard. This dashboard is refreshed monthly and evaluates key dimensions of credit risk against predefined parameters, commonly referred to as triggers and limits. Triggers are designed to alert senior management of unfavorable performance deviations from current risk profile and provide sufficient lead time to address and implement corrective actions before the risk increases in materiality. Where appropriate, triggers are aligned to budget expectations and operational targets. Limits, conversely, are designed to represent the maximum risk tolerance or appetite we are willing to accept in any given year.

The credit risk team is constantly evaluating current and projected economic conditions, internal credit performance in relation to budget and predefined risk tolerances, and current and expected regulatory guidance to determine the optimal balance of expansion and contraction policies. All policy change proposals receive intense scrutiny and syndication prior to approval and implementation. This process ensures decisions are made based on profit based analytics with full consideration to operational and regulatory risks.

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On the commercial banking side of credit risk, the structure is broken into Commercial and Industrial (C&I) loans and leases and Commercial Real Estate (CRE). Within C&I there are separate verticals established for certain specialty products (e.g., asset based lending, leasing, franchise finance, health care, technology, mid-corporate). A specialty vertical is a stand-alone team of industry or product specialists. Substantially all activity that falls under the ambit of the defined industry or product is managed through a specialty vertical when one exists. CRE also operates as a specialty vertical.

Commercial credit risk management begins with defined credit products and policies. New credit products and material changes to existing credit products require multiple levels of review and approval. The initial level of review involves the engagement of risk disciplines from across the enterprise for a New Product Risk Assessment. This assessment process reviews the product description, strategic rationale and financial impact and considers the risk impact from multiple perspectives (Reputation, Operational, Regulatory, Market, Legal as well as Credit). Credit risk approval then involves the determination and development of credit policy which includes the approval of the appropriate credit risk acceptance criteria beyond the general credit underwritings standards that already exist.

Commercial transactions are subject to individual analysis and approval at origination and thereafter are subject to formal annual reviews. The underwriting process includes the establishment and approval of Credit Grades that confirm the Probability of Default (PD) and Loss Given Default (LGD). Approval then requires both a business line approver and an independent Credit Approver. The approval level is determined by the size of the credit relationship as well as the PD with larger relationships and weaker PD s requiring more senior individuals. The checks and balances in the credit process and the independence of the credit approver function are designed to appropriately assess and sanction the level of credit risk being accepted, facilitate the early recognition of credit problems when they occur, and to provide for effective problem asset management and resolution. All authority to grant credit is delegated through the independent credit administration function and is closely monitored and regularly updated.

The primary factors considered in commercial credit approvals are the financial strength of the borrower, assessment of the borrower s management capabilities, cash flows from operations, industry sector trends, type and sufficiency of collateral, type of exposure, transaction structure, and the general economic outlook. While these are the primary factors considered, there are a number of other factors that may be considered in the decision process. In addition to the credit analysis conducted during the approval process at origination and annual review, our Credit Quality Assurance group performs testing to provide an independent review and assessment of the quality and/or risk of new loan originations. This group is part of our Risk Management area, and conducts portfolio reviews on a risk-based cycle to evaluate individual loans, validate risk ratings, as well as test the consistency of the credit processes.

The maximum level of credit exposure to individual credit borrowers is limited by policy guidelines based on the perceived risk of each borrower or related group of borrowers. Concentration risk is managed through limits on industry (sector), loan type (asset class), and loan quality factors. We focus predominantly on extending credit to commercial customers with existing or expandable relationships within our primary banking markets, although we will consider lending opportunities outside our primary markets if we believe that the associated risks are acceptable and aligned with strategic initiatives. Geographic considerations occur at both the transactional level as well as the product level, as certain specialties operate on a national basis.

Our management of risk concentrations includes the establishment of Sector and Asset Class limits which track and report correlated risk exposures. We established limits for 29 separate Sectors. These Sector Limits are approved annually by the Concentration Risk Management Committee. Exposure against these limits is tracked on a monthly basis. The two largest sector concentrations are Industrials and CRE.

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Apart from Industrials and CRE (which together make up 29% of the commercial utilization as of March 31, 2014), we do not have any major sector concentrations. The Industrial sector includes basic C&I lending focused on general manufacturing. The sector is diversified and not managed as a specialized vertical. Our customers are local to our market and present no significant concentration. We have a smaller concentration in CRE than our peer banks based on industry data obtained from SNL Financial. As of March 31, 2014, our CRE outstandings amounted to 12% of total outstanding loans. According to SNL Financial, the corresponding ratio for peer banks was 18%.

We have also established, through the Concentration Risk Management Committee, Asset Class Limits to further measure and manage concentration risks. Asset classes include Leveraged Lending, Franchise Finance and Loan Underwriting Risk. These asset class limits are expressed as either a percentage of capital or by specific dollar thresholds. Exposure against these limits is tracked quarterly.

Our standardized credit grading system considers many components that directly correlate to loan quality and likelihood of repayment. Our assessment of a borrower's credit strength, or lack thereof, is reflected in our risk ratings for such loans, which are directly tied to, and an integral component of, our allowance for loan and lease losses methodology. When deterioration in credit strength is noted, a loan becomes subject to Watch Review. The Watch Review process evaluates the weaknesses and recommends corrective strategy. The Watch Review process involves senior representatives from the business line portfolio management team, credit and our Global Recovery Group (GRG). If a viable corrective action strategy is not achieved, the credit is subject to classification as either Criticized or Classified which triggers a risk rating downgrade. As such, the loan would attract a higher allowance for loan and lease losses requirement, be subject to more frequent review (including continued inclusion in the Watch Review process), and be reported as a non-pass credit to our regulators. In addition, all classified assets are transferred to GRG.

Substantially all loans categorized as Classified are managed by GRG. GRG is a specialized group of credit professionals that handles the day-to-day management of workouts, commercial recoveries, and problem loan sales. Its responsibilities include developing and implementing action plans, assessing risk ratings, and determining the appropriateness of the allowance, the accrual status, and the ultimate collectability of the Classified loan portfolio.

Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and/or other relevant market rates or prices. Market risk does not result from proprietary trading, which we prohibit. Rather, modest market risk arises from trading activities that serve customer needs, including hedging of interest rate and foreign exchange risk. As described below, more material market risk arises from our non-trading banking activities, such as loan origination and deposit-gathering. We have established enterprise-wide policies and methodologies to identify, measure, monitor and report market risk. We actively manage both trading and non-trading market risks.

Non-Trading Risk

We are exposed to market risk as a result of non-trading banking activities. This market risk is comprised entirely of interest rate risk, as we have no direct currency, equity or commodity risk. This interest rate risk emerges from the balance sheet after the aggregation of our assets, liabilities and equity. We refer to this non-trading risk embedded in the balance sheet as structural interest rate risk or interest rate risk in the banking book. Our mortgage servicing rights assets also contain interest rate risk as the value of the fee stream is impacted by the level of long-term interest rates.

A major source of structural interest rate risk is a difference in the repricing of assets, on the one hand, and liabilities and equity, on the other. First, there are differences in the timing of rate changes

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reflecting the maturity and/or repricing of assets and liabilities. For example, the rate earned on a residential mortgage may be fixed for 30 years; the rate paid on a certificate of deposit may be fixed only for a few months. Due to these timing differences, net interest income is sensitive to changes in the level and shape of the yield curve. Second, there are differences in the drivers of rate changes of various assets and liabilities. For example, commercial loans may reprice based on one-month LIBOR or prime; the rate paid on retail money market demand accounts may be only loosely correlated with LIBOR and depend on competitive demand for funds. Due to these basis differences, net interest income is sensitive to changes in spreads between certain indices or repricing rates.

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

A primary source of our structural interest rate risk relates to faster repricing of floating rate loans relative to the retail deposit funding. This source of asset sensitivity is concentrated at the short end of the yield curve. Given the very low level of short-term interest rates, this risk is asymmetrical with significantly more upside benefit than potential exposure. The secondary source of our interest rate risk is driven by longer term rates comprising the rollover or reinvestment risk on fixed rate loans as well as the prepayment risk on mortgage related loans and securities funded by non-rate sensitive deposits and equity.

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

We measure structural interest rate risk through a variety of metrics intended to quantify both short-term and long-term exposures. The primary method that we use to quantify interest rate risk is simulation analysis in which we model net interest income from assets, liabilities and hedge derivative positions under various interest rate scenarios over a three-year horizon. Exposure to interest rate risk is reflected in the variation of forecasted net interest income across scenarios.

Key assumptions in this simulation analysis relate to the behavior of interest rates and spreads, the changes in product balances and the behavior of loan and deposit clients in different rate environments. The most material of these behavioral assumptions relate to the repricing characteristics and balance fluctuations of deposits with indeterminate (i.e., non-contractual) maturities as well as the pace of mortgage prepayments.

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

The table below reports net interest income exposures against a variety of interest rate scenarios. Exposures are measured as a percentage change in net interest income over the next year due to either instantaneous, or gradual parallel +/- 200 basis point moves in benchmark interest rates. The net

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interest income simulation analyses do not include possible future actions that management might undertake to mitigate this risk. The current limit is an adverse change of 10% related to an instantaneous +/- 200 basis point move. As the table illustrates, our balance sheet is asset-sensitive: net interest income would benefit from an increase in interest rates. Exposure to a decline in interest rates is well within limit. It should be noted that the magnitude of any possible decline in interest rates is constrained by the low absolute starting levels of rates. While an instantaneous and severe shift in interest rates was used in this analysis, we believe that any actual shift in interest rates would likely be more gradual and would therefore have a more modest impact.

The table below summarizes our positioning in various parallel yield curve shifts:

Basis points

	Estimated % Change in Net Interest Income over 12 Months		
	Tolerance Level	March 31, 2014	December 31, 2013
Instantaneous Change in Interest Rates			
+200	(10)%	13.5%	16.1%
+100		6.8%	8.0%
-100		(2.9)%	(3.7)%
-200	(10)%	(3.8)%	(5.7)%
Gradual Change in Interest Rates			
+200		6.0%	6.8%
+100		3.0%	3.2%
-100		(1.6)%	(2.0)%
-200		(2.3)%	(3.0)%

As part of the routine risk management process, a wide variety of similar analyses are reported for each of the next three rolling years.

As recommended by bank regulators, CBNA also uses a valuation measure of exposure to structural interest rate risk, Economic Value of Equity, as a supplement to net interest income simulations. Nevertheless, multi-year net interest income simulation is the main tool for managing structural interest rate risk.

As noted, the balance sheet is asset-sensitive, positioned to benefit from an increase in interest rates. The magnitude of this asset-sensitivity has been reduced from more elevated levels at the end of 2012. At that time, the extremely low levels of medium- to long-term interest rates presented a poor risk-to-reward trade-off for transaction that would add asset duration. As a result, the investment portfolio was reduced in size, increasing asset-sensitivity. Subsequently, intermediate- and long-term interest rates have risen and we resumed portfolio investment, moderating the aggregate asset-sensitivity of the balance sheet.

We also had market risk associated with the value of the mortgage servicing right assets, which are impacted by the level of interest rates. As of March 31, 2014 and December 31, 2013, our mortgage servicing rights had a book value of \$182 million and \$185 million, respectively, and were carried at the lower of cost or market value. As of March 31, 2014, and December 31, 2013, the fair value of the mortgage servicing rights was \$193 million and \$195 million, respectively. Given low interest rates over recent years, there is a valuation allowance of \$19 million and \$23 million on the asset as of March 31, 2014 and December 31, 2013, respectively. Depending on the interest rate environment,

hedges may be used to stabilize the market value of the mortgage servicing right asset.

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We are exposed to market risk primarily through client facilitation activities including derivatives and foreign exchange products. Exposure is created as a result of the implied volatility and spreads of a select range of interest rates and foreign exchange rates. These trading activities are conducted through our two banking subsidiaries, CBNA and CBPA.

Client facilitation activities consist primarily of interest rate derivatives and foreign exchange contracts where we enter into offsetting trades with a separate counterparty or exchange to manage our exposure to the customer. Historically, the majority of these offsetting trades have been with the RBS Group. We will occasionally execute hedges against the spread that exists across the client facing trade and its offset in the market to maintain a low risk profile. We do not engage in any proprietary trading to benefit from price differences between financial instruments and markets.

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

Market Risk Governance. Our market risk function currently leverages the subject matter expertise within the RBS Group to ensure appropriate controls are in place to manage market risk. As part of our separation from the RBS Group, we intend to enter into a Transitional Services Agreement pursuant to which RBS Securities Inc. will continue to provide us with all necessary Value-at-Risk (VaR) and other risk measurements required for regulatory reporting related to trading activities, as well as internal market risk reporting and general consultative services related to our market risk framework until the end of the Transitional Services Agreement. During the term of the Transitional Services Agreement, we intend to build out our own market risk organization and framework in order to gradually migrate away from reliance on services provided by the RBS Group. As part of this process, we hired a new head of market risk management to begin building out our stand-alone capabilities with respect to market risk management.

Given the low level of market risk and substantial market risk expertise at our parent, we have received the support of our U.S. banking regulators for relying on the RBS Group's market risk expertise. In managing our market risk, dealing authorities represent a key control in the management of market risk by setting the scope within which the business is permitted to operate. Dealing authorities are established jointly by designated senior business line and senior risk manager, and are reviewed at least annually. Dealing authorities are structured to accommodate the client facing trades, market offset trades and sets of hedges needed to maintain a low risk profile. Primary responsibility for keeping within established tolerances resides with the business. Key risk indicators, including a combined VaR for interest rate and foreign exchange rate risk, are monitored on a daily basis and reported against tolerances consistent with our risk appetite and business strategy to relevant business line management and risk counterparts.

Market Risk Measurement. We use VaR metrics, complemented with sensitivity analysis and stress testing in measuring market risk. During the term of the Transition Services Agreement, we will continue to leverage the RBS Group market risk measurement models, which are described further below, that capture correlation effects and allow for aggregation of market risk across risk types, business lines and legal entities. We measure and monitor market risk for both management and regulatory capital purposes.

Value-at-Risk Overview. The RBS Group's market risk measurement model is based on historical simulation. The VaR measure estimates the extent of any fair value losses on trading positions that may occur due to broad market movements (General VaR) such as changes in the level of interest

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rates, foreign exchange rates, equity prices and commodity prices. It is calculated on the basis that current positions remain broadly unaltered over the course of a given holding period. It is assumed that markets are sufficiently liquid to allow the business to close its positions, if required, within this holding period. VaR's benefit is that it captures the historic correlations of a portfolio. Based on the composition of our covered positions, we do not calculate a Specific Risk VaR measure which estimates the extent of any losses that may occur from factors other than broad market movements. The RBS Group's General VaR approach is expressed in terms of a confidence level over the past 500 trading days. The internal VaR measure (used as the basis of the main VaR trading limits) is a 99% confidence level with a one day holding period, meaning that a loss greater than the VaR is expected to occur, on average, on only one day in 100 trading days (i.e., 1% of the time). Theoretically, there should be a loss event greater than VaR two to three times per year. The regulatory measure of VaR is done at a 99% confidence level with a 10-day holding period. The historical market data applied to calculate the VaR is updated on a 10 business day lag. Refer to Market Risk Regulatory Capital below for details of our 10-day VAR metrics for the quarters ending March 31, 2014 and December 31, 2013, including high, low, average and period end VaR for interest rate and foreign exchange rate risks, as well as total VaR. We began measuring the high, low, and average VaR for interest rate and foreign exchange currency rate risk during the fourth quarter of 2013, in conjunction with incorporating trade-level detail for foreign exchange risk in our market risk measurement models. Prior to that time, VaR for foreign exchange exposure was calculated using a manual process that did not capture potential interest rate risk from any forward transactions.

Market Risk Regulatory Capital. Effective January 1, 2013, the U.S. banking regulators adopted Risk-Based Capital Guidelines: Market Risk as the regulations covering the calculation of market risk capital (the Market Risk Rule). The Market Risk Rule, commonly known as Basel 2.5, substantially modified the determination of market risk-weighted assets and implemented a more risk sensitive methodology for the risk inherent in certain trading positions categorized as covered positions. For the purposes of the market risk rule, all of our client facing trades, market offset trades and sets of hedges needed to maintain a low risk profile qualify as covered positions. The internal VaR measure is calculated based on the same population of trades that is utilized for regulatory VaR. The following table shows the results of our modeled measures for regulatory capital calculations:

Market Risk Category	For the Quarter Ended March 31, 2014			
	Period End	Average	High	Low
	(in millions)			
Interest Rate	\$	\$	\$ 1	\$
Foreign Exchange Currency Rate			1	
Diversification Benefit			NM ⁽¹⁾	NM ⁽¹⁾
General VaR			2	
Specific Risk VaR				
Total VaR	\$	\$	\$ 2	\$
Stressed General VaR	\$ 2	\$ 2	\$ 7	\$
Stressed Specific Risk VaR				
Total Stressed VaR	\$ 2	\$ 2	\$ 7	\$
CFG Market Risk Regulatory Capital	\$ 9			
CFG Market Risk-Weighted Assets	\$ 111			

- (1) The high and low for the portfolio may have occurred on different trading days than the high and low for the components. Therefore, there is no diversification benefit shown for the high and low columns.

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Market Risk Category	For the Quarter Ended December 31, 2013			
	Period End	Average	High	Low
	(in millions)			
Interest Rate	\$ 1	\$ 1	\$ 1	\$
Foreign Exchange Currency Rate		1	3	
Diversification Benefit			NM ⁽¹⁾	NM ⁽¹⁾
General VaR	1	1	3	
Specific Risk VaR				
Total VaR	\$ 1	\$ 1	\$ 3	\$
Stressed General VaR	\$ 2	\$ 3	\$ 7	\$
Stressed Specific Risk VaR				
Total Stressed VaR	\$ 2	\$ 3	\$ 7	\$
CFG Market Risk Regulatory Capital	\$ 12			
CFG Market Risk-Weighted Assets	\$ 146			

⁽¹⁾ The high and low for the portfolio may have occurred on different trading days than the high and low for the components. Therefore, there is no diversification benefit shown for the high and low columns.

Stress VaR (SVaR). Stress VaR is an extension of VaR, but uses a longer historical look back horizon that is fixed from January 1, 2005. This is done not only to identify headline risks from more volatile periods, but also to provide a counter balance to VaR which may be low during periods of low volatility. The holding period for profit and loss determination is 10 days. SVaR is also a component of market risk regulatory capital. SVaR for us is calculated under its own dynamic window regime as compared to the RBS Group's static SVaR window. In a dynamic window regime, values of the 10-day, 99% VaR are calculated over all possible 260-day periods that can be obtained from the complete historical data set. Refer to Market Risk Regulatory Capital above for details of SVaR metrics, including high, low, average and period end SVaR for the combined portfolio. We began measuring the high, low, and average SVaR for our combined portfolio during the fourth quarter of 2013 in conjunction with the incorporation of trade-level detail for foreign exchange risk, in our market risk measurement models. Prior to that time, our SVaR measure did not include foreign exchange risk given low levels of materiality.

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

Stress Testing. Conducting a stress test of a portfolio consists of running risk models with the inclusion of key variables that simulate various historical or hypothetical scenarios. For historical stress tests, profit and loss results are simulated for selected time periods corresponding to the most volatile underlying returns while hypothetical stress tests aim to consider concentration risk, illiquidity under stressed market conditions and risk arising from the bank's trading activities that may not be fully captured by its other models. Hypothetical scenarios also assume that the market moves happen simultaneously and that no repositioning or hedging activity takes place to mitigate losses as

events unfold. We generate stress tests of our trading positions on a regular basis. For example, we currently include a stress test that simulates a Lehman Crisis scenario by taking the worst, 10-day peak to trough moves for the various risk factors that go into VaR from that period, and assuming they occurred simultaneously.

VaR Model Review and Validation. Market risk measurement models used within the RBS Group, including VaR models, are subject to ongoing and independent review and validation that focuses on

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the model methodology. Independent review of market risk measurement models is the responsibility of RBS Group Risk Analytics (GRA). Aspects covered include challenging the assumptions used, the quantitative techniques employed and the theoretical justification underpinning them, and an assessment of the soundness of the required data over time. Where possible, the quantitative impact of the major underlying modeling assumptions will be estimated (e.g., through developing alternative models). Results of such reviews are shared with U.S. regulators. For the term of the Transitional Services Agreement, we and the RBS Group expect to utilize the same independently validated VaR model for both management and regulatory reporting purposes. The RBS Group market risk teams, including those providing consultative services to us under the Transitional Services Agreement, will conduct internal validation before a new or changed model element is implemented and before a change is made to a market data mapping. For example, the RBS Group market risk teams also perform regular reviews of key risk factors that are used in the market risk measurement models to produce profit and loss vectors used in the VaR calculations. These internal validations are subject to independent re-validation by GRA and, depending on the results of the impact assessment, notification to the appropriate regulatory authorities for the RBS Group and us may be required.

VaR Backtesting. Backtesting is one form of validation of the VaR model. The Market Risk Rule requires a comparison of our internal VaR measure to the actual net trading revenue (excluding fees, commissions, reserves, intra-day trading and net interest income) for each day over the preceding year (the most recent 250 business days). Any observed loss in excess of the VaR number is taken as an exception. The level of exceptions determines the multiplication factor used to derive the VaR and SVaR-based capital requirement for regulatory reporting purposes. We perform sub-portfolio backtesting as required under the Market Risk Rule, and as approved by its U.S. banking regulators, for interest rate and foreign exchange positions. The following table shows our daily net trading revenue and total internal VaR for the quarters ending March 31, 2014 and December 31, 2013. Prior to this time, we did not perform our own portfolio specific backtesting, relying instead on the RBS Group's backtesting results. Until such time as we can accumulate a full 250 business days of backtesting results, we continue to utilize a multiplication factor derived from the RBS Group's backtesting results, as agreed with our banking regulators.

Daily VaR Backtesting: Sub-portfolio Level Backtesting.

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The accompanying supplemental information should be read in conjunction with the sections of this prospectus entitled Summary Consolidated Financial and Other Data, Selected Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations and our unaudited interim and audited consolidated financial statements and related notes included elsewhere in this prospectus.

Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential

The following table provides a summary of our consolidated average balances including major categories of interest-earning assets and interest-bearing liabilities:

	Year Ended December 31,								
	2013			2012			2011		
	Average Balances	Income/Expense	Yields/Rates	Average Balances	Income/Expense	Yields/Rates	Average Balances	Income/Expense	Yields/Rates
	(dollars in millions)								
Assets									
Taxable investment securities	\$ 21,340	\$ 488	2.29%	\$ 23,592	\$ 622	2.64	\$ 24,714	\$ 755	3.06%
Non-taxable investment securities	12		2.66	40	2	4.32	49	2	4.37
Total investment securities	21,352	488	2.29	23,632	624	2.64	24,763	757	3.06
Commercial	28,654	900	3.10	27,273	849	3.07	23,886	779	3.22
Commercial real estate	6,568	178	2.67	7,063	196	2.72	8,310	237	2.82
Leases	3,463	105	3.05	3,216	112	3.48	2,952	113	3.83
Total commercial	38,685	1,183	3.02	37,552	1,157	3.04	35,148	1,129	3.18
Home equity lines of credit	17,105	485	2.83	17,745	497	2.80	17,172	472	2.75
Residential mortgage	9,104	360	3.96	9,551	413	4.32	9,721	453	4.66
Home equity loans	6,330	361	5.71	8,176	481	5.88	10,575	627	5.93
Automobile	8,857	235	2.65	8,276	273	3.30	7,541	339	4.50
Student and other installment loans	3,655	202	5.52	4,040	218	5.38	4,863	259	5.32
Credit cards	1,669	175	10.46	1,634	166	10.15	1,580	155	9.79
Total retail	46,720	1,818	3.89	49,422	2,048	4.14	51,452	2,305	4.48
Total loans and leases ⁽¹⁾	85,405	3,001	3.50	86,974	3,205	3.67	86,600	3,434	3.95
Loans held for sale	392	12	3.07	538	17	3.10	359	13	3.70

Interest-earning assets	107,149	3,501	3.25	111,144	3,846	3.45	111,722	4,204	3.75
Allowance for loan and lease losses	(1,219)			(1,506)			(1,888)		
Goodwill	9,437			11,323			11,344		
Other noninterest-earning assets	5,499			6,705			7,166		
Total noninterest-earning assets	13,717			16,522			16,622		
Total assets	\$ 120,866			\$ 127,666			\$ 128,344		

Liabilities and Stockholders

Equity

Checking with interest	\$ 14,096	\$ 8	0.06%	\$ 13,522	\$ 10	0.08%	\$ 16,116	\$ 15	0.10%
Money market & savings	42,575	105	0.25	41,249	121	0.29	37,638	94	0.25
Term deposits	11,266	103	0.91	13,534	244	1.80	16,501	381	2.31
Total interest-bearing deposits	67,937	216	0.32	68,305	375	0.55	70,255	490	0.70
Federal funds purchased and securities sold under agreements to repurchase ⁽²⁾	2,400	192	7.89	2,716	119	4.31	3,808	191	4.96
Short-term borrowed funds	251	4	1.64	3,026	101	3.27	2,459	150	6.04

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	Year Ended December 31,								
	2013			2012			2011		
	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates
	(dollars in millions)								
Long-term borrowed funds	778	31	3.93	1,976	24	1.20	5,085	53	1.02
Total borrowed funds	3,429	227	6.53	7,718	244	3.11	11,352	394	3.42
Total interest-bearing liabilities	71,366	443	0.61	76,023	619	0.80	81,607	884	1.07
Total demand deposits	25,399			25,053			21,191		
Other liabilities	2,267			2,652			2,409		
Stockholders equity	21,834			23,938			23,137		
Total liabilities and stockholders equity	\$ 120,866			\$ 127,666			\$ 128,344		
Interest rate spread			2.64			2.65			2.68
Net interest income		\$ 3,058			\$ 3,227			\$ 3,320	
Net interest margin			2.85%			2.89%			2.97%

(1) Interest income and rates on loans include loan fees. Additionally, average nonaccrual loans were included in the average loan balances used to determine the average yield on loans in amounts of \$1.6 billion, \$1.7 billion and \$1.9 billion for 2013, 2012 and 2011, respectively

(2) Balances are net of certain short-term receivables associated with reverse agreements. Interest expense includes the full cost of the repurchase agreements and certain hedging costs. The yield on Federal funds purchased is elevated due to the impact from pay-fixed interest rate swaps that are scheduled to runoff by the end of 2015. See Management's Discussion and Analysis of Financial Condition and Results of Operations Analysis of Financial Condition December 31, 2013 Compared with December 31, 2012 Derivatives for further information.

Table of Contents**Change in Net Interest Income Volume and Rate Analysis**

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

	2013 Versus 2012			2012 Versus 2011		
	Average Volume	Average Rate	Net Change (in millions)	Average Volume	Average Rate	Net Change
Interest Income						
Taxable investment securities	\$ (59)	\$ (75)	\$ (134)	\$ (35)	\$ (98)	\$ (133)
Non-taxable investment securities	(1)	(1)	(2)			
Total investment securities	(60)	(76)	(136)	(35)	(98)	(133)
Commercial	43	8	51	111	(41)	70
Commercial real estate	(14)	(4)	(18)	(36)	(5)	(41)
Leases	9	(16)	(7)	10	(11)	(1)
Total commercial	38	(12)	26	85	(57)	28
Home equity lines of credit	(18)	6	(12)	16	9	25
Residential mortgage	(19)	(34)	(53)	(8)	(32)	(40)
Home equity loans	(108)	(12)	(120)	(142)	(4)	(146)
Automobile	19	(57)	(38)	33	(99)	(66)
Student and other installment loans	(26)	10	(16)	(52)	11	(41)
Credit cards	3	6	9	5	6	11
Total retail	(149)	(81)	(230)	(148)	(109)	(257)
Total loans and leases	(111)	(93)	(204)	(63)	(166)	(229)
Loans held for sale	(5)		(5)	7	(3)	4
Total interest income	\$ (176)	\$ (169)	\$ (345)	\$ (91)	\$ (267)	\$ (358)
Interest Expense						
Checking with interest	\$	\$ (2)	\$ (2)	\$ (2)	\$ (3)	\$ (5)
Money market & savings	4	(20)	(16)	9	18	27
Term deposits	(41)	(100)	(141)	(68)	(69)	(137)
Total interest-bearing deposits	(37)	(122)	(159)	(61)	(54)	(115)
Federal funds purchased and securities sold under agreements to repurchase	(14)	87	73	(55)	(17)	(72)
Short-term borrowed funds	(92)	(5)	(97)	35	(84)	(49)
Long-term borrowed funds	(15)	22	7	(32)	3	(29)

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Total borrowed funds	(121)	104	(17)	(52)	(98)	(150)
Total interest-bearing liabilities	(158)	(18)	(176)	(113)	(152)	(265)
Net interest income	\$ (18)	\$ (151)	\$ (169)	\$ 22	\$ (115)	\$ (93)

Table of Contents**Investment Portfolio**

The following table presents the book value of the major components of our investments portfolio. See Note 3 Securities to our audited consolidated financial statements included elsewhere in this prospectus for further discussion.

	2013	December 31, 2012 (in millions)	2011
Available-for-Sale Securities:			
U.S. Treasury	\$ 15	\$ 15	\$ 15
State and political subdivisions	10	21	90
Other bonds, notes and debentures			1
Mortgage-backed securities:			
Federal agencies and U.S. government sponsored entities	14,993	16,904	20,129
Other/non-agency	952	1,397	1,893
Total mortgage-backed securities	15,945	18,301	22,022
Total debt securities	15,970	18,337	22,128
Marketable equity securities	13	7	10
Other equity securities	12	12	12
Total equity securities	25	19	22
Total available-for-sale securities	\$ 15,995	\$ 18,356	\$ 22,150
Held to Maturity Debt Securities:			
Mortgage-backed securities:			
Federal Agencies and U.S. government sponsored entities	\$ 2,940	\$	\$
Other/non-agency	1,375		
Total held to maturity debt securities	\$ 4,315	\$	\$
Other Investment Securities:			
Federal Reserve Bank stock	\$ 462	\$ 490	\$ 490
Federal Home Loan Bank stock	468	565	655
Venture capital and other investments	5	6	57
Total other investment securities	\$ 935	\$ 1,061	\$ 1,202

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

	Distribution of Maturities				
	Due in 1 Year or Less	Due After 1 Through 5 Years	Due After 5 Through 10 Years	Due After 10 Years	Total
	(in millions)				
Amortized Cost:					
Available-for-Sale Debt Securities:					
U.S. Treasury	\$ 15	\$	\$	\$	\$ 15
State and political subdivisions				11	11
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities		39	2,865	12,066	14,970
Other/non-agency		43	120	829	992
Total available-for-sale debt securities	15	82	2,985	12,906	15,988
Held to Maturity Debt Securities:					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities				2,940	2,940
Other/non-agency				1,375	1,375
Total held to maturity debt securities				4,315	4,315
Total amortized cost of debt securities⁽¹⁾	\$ 15	\$ 82	\$ 2,985	\$ 17,221	\$ 20,303
Weighted-average yield⁽²⁾	0.17%	4.79%	1.82%	2.81%	2.67%

(1) As of December 31, 2013, no investments exceeded 10% of stockholders' equity.

(2) Yields on tax-exempt securities are not computed on a tax-equivalent basis.

Loan and Lease Portfolio

The following table shows the composition of total loans and leases. See Note 4 – Loans and Leases to our audited consolidated financial statements included elsewhere in this prospectus for further discussion of our loan and lease portfolio.

	2013	2012	2011	2010	2009
	(in millions)				
Loans and Leases:					
Commercial	\$ 28,667	\$ 28,856	\$ 25,770	\$ 21,877	\$ 21,253
Commercial real estate	6,948	6,459	7,602	8,920	10,463
Leases	3,780	3,415	3,164	3,016	3,290
Total commercial	39,395	38,730	36,536	33,813	35,006
Residential, including originated home equity products	29,694	31,101	33,151	33,738	36,947
Home equity products serviced by others	2,171	2,960	3,624	4,412	5,510
Other secured retail	10,700	10,568	9,576	10,981	12,502
Unsecured retail	3,899	3,889	3,908	4,078	5,115
Total retail	46,464	48,518	50,259	53,209	60,074
Total loans and leases	\$ 85,859	\$ 87,248	\$ 86,795	\$ 87,022	\$ 95,080

Table of Contents**Maturities and Sensitivities of Loans and Leases to Changes in Interest Rates**

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

	December 31, 2013			Total Loans and Leases
	Due in 1 Year or Less	Due After 1 Through 5 Years	Due After 5 Years	
	(in millions)			
Commercial	\$ 24,299	\$ 2,525	\$ 1,843	\$ 28,667
Commercial real estate	6,505	286	157	6,948
Leases	610	1,872	1,298	3,780
Total commercial	31,414	4,683	3,298	39,395
Residential, including originated home equity products	12,482	5,786	11,426	29,694
Home equity products serviced by others	734	5	1,432	2,171
Other secured retail	485	6,032	4,183	10,700
Unsecured retail	1,659	226	2,014	3,899
Total retail	15,360	12,049	19,055	46,464
Total loans and leases	\$ 46,774	\$ 16,732	\$ 22,353	\$ 85,859
Loans and leases due after one year at fixed interest rates		\$ 10,232	\$ 16,186	\$ 26,418
Loans and leases due after one year at variable interest rates		6,500	6,167	12,667

Loan and Lease Concentrations

This disclosure presents our exposure to any concentration of loans and leases that exceed 10% of total loans and leases. At December 31, 2013, we did not identify any concentration of loans and leases that exceeded the 10% threshold. See Note 5 Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk to our audited consolidated financial statements included elsewhere in this prospectus for further discussion of how we manage concentration exposures.

Table of Contents**Risk Elements**

The following table presents a summary of nonperforming loans and leases by class:

	2013	2012	2011	2010	2009
	(in millions)				
Nonaccrual loans and leases					
Commercial	\$ 96	\$ 119	\$ 176	\$ 283	\$ 225
Commercial real estate	169	386	710	927	886
Leases		1	1	13	33
Total commercial	265	506	887	1,223	1,144
Residential, including originated home equity products	981	1,043	690	764	555
Home equity products serviced by others	89	133	93	169	273
Other secured retail	26	25	19	27	43
Unsecured retail	22	23	23	37	63
Total retail	1,118	1,224	825	997	934
Total nonaccrual loans and leases	\$ 1,383	\$ 1,730	\$ 1,712	\$ 2,220	\$ 2,078
Loans and leases that are accruing and 90 days or more delinquent					
Commercial	\$	\$ 71	\$ 1	\$ 87	\$ 1
Commercial real estate		33	4	2	65
Total commercial		104	5	89	66
Residential, including originated home equity products			29	15	22
Other secured retail			36	29	27
Unsecured retail	33	35	2	2	2
Total retail	33	35	67	46	51
Total accruing and 90 days or more delinquent	33	139	72	135	117
Total nonperforming loans and leases	\$ 1,416	\$ 1,869	\$ 1,784	\$ 2,355	\$ 2,195
Troubled debt restructurings ⁽¹⁾	\$ 777	\$ 704	\$ 493	\$ 346	\$ 209

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

balances listed above.

Impact of Nonperforming Loans and Leases on Interest Income

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

	Year Ended December 31, 2013 (in millions)
Gross amount of interest income that would have been recorded in accordance with original contractual terms, and had been outstanding throughout the period or since origination, if held for only part of the period ⁽¹⁾	\$ 176
Interest income actually recognized	27
Total interest income foregone	\$ 149

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

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Potential Problem Loans

This disclosure presents outstanding amounts as well as specific reserves for certain loans and leases where information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present repayment terms. At December 31, 2013, we did not identify any potential problem loans or leases within the portfolio that were not already included in Risk Elements above.

Cross-Border Outstandings

The cross-border disclosure is based upon the FFIEC guidelines governing the determination of cross-border risk. The primary differences between the FFIEC and the Securities Act Guide 3 guidelines for reporting cross-border exposure are: (i) available-for-sale investments are reported based on amortized cost for the FFIEC instead of fair value for the Securities Act Guide 3; (ii) net local country claims are reduced by local country liabilities (regardless of currency denomination) excluding any debt that is funding the local assets through a foreign domiciled subsidiary for the FFIEC compared to the Securities Act Guide 3 where only amounts in the same currencies are offset and such debt noted above is a reduction to local country claims; (iii) the FFIEC methodology includes mark-to-market exposures of derivative assets, which are excluded under the Securities Act Guide 3; and (iv) investments in unconsolidated subsidiaries are included under the FFIEC but excluded under the Securities Act Guide 3.

Cross-border outstandings can include loans, receivables, interest-bearing deposits with other banks, other interest-bearing investments and other monetary assets that are denominated in either dollars or other non-local currency.

As of December 31, 2013, 2012 and 2011, there were no aggregate cross-border outstandings from borrowers or counterparties in any country that exceeded 1%, or were between 0.75% and 1% of consolidated total assets.

Table of Contents**Summary of Loan and Lease Loss Experience**

The following table summarizes the changes to our allowance for loan and lease losses:

	2013	2012	December 31,		
			2011	2010	2009
	(dollars in millions)				
Allowance for Loan and Lease Losses Beginning:					
Commercial	\$ 379	\$ 394	\$ 399	\$ 451	\$ 387
Commercial real estate	112	279	401	317	161
Leases	18	18	28	79	49
Total commercial	509	691	828	847	597
Residential, including originated home equity products	263	283	301	366	157
Home equity products serviced by others	177	293	385	495	474
Other secured retail	77	95	118	219	228
Unsecured retail	140	145	217	251	258
Total retail	657	816	1,021	1,331	1,117
Unallocated	89	191	156	31	17
Allowance for loan and lease losses beginning	\$ 1,255	\$ 1,698	\$ 2,005	\$ 2,209	\$ 1,731
Gross Charge-offs:					
Commercial	\$ (72)	\$ (127)	\$ (170)	\$ (267)	\$ (406)
Commercial real estate	(36)	(129)	(208)	(420)	(321)
Leases		(1)		(1)	(38)
Total commercial	(108)	(257)	(378)	(688)	(765)
Residential, including originated home equity products	(233)	(324)	(328)	(364)	(323)
Home equity products serviced by others	(146)	(268)	(366)	(540)	(709)
Other secured retail	(74)	(105)	(132)	(205)	(308)
Unsecured retail	(142)	(156)	(182)	(294)	(375)
Total retail	(595)	(853)	(1,008)	(1,403)	(1,715)
Total gross charge-offs	\$ (703)	\$ (1,110)	\$ (1,386)	\$ (2,091)	\$ (2,480)
Gross Recoveries:					
Commercial	\$ 46	\$ 64	\$ 42	\$ 33	\$ 31
Commercial real estate	40	47	47	23	3
Leases	1	2	3	1	
Total commercial	87	113	92	57	34
Residential, including originated home equity products	55	52	51	48	48
Home equity products serviced by others	28	27	22	20	58

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Other secured retail	12	21	35	46	41
Unsecured retail	20	22	21	71	13
Total retail	115	122	129	185	160
Total gross recoveries	\$ 202	\$ 235	\$ 221	\$ 242	\$ 194

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	2013	2012	December 31, 2011	2010	2009
	(dollars in millions)				
Net (Charge-offs) / Recoveries:					
Commercial	\$ (26)	\$ (63)	\$ (128)	\$ (234)	\$ (375)
Commercial real estate	4	(82)	(161)	(397)	(318)
Leases	1	1	3		(38)
Total commercial	(21)	(144)	(286)	(631)	(731)
Residential, including originated home equity products	(178)	(272)	(277)	(316)	(275)
Home equity products serviced by others	(118)	(241)	(344)	(520)	(651)
Other secured retail	(62)	(84)	(97)	(159)	(267)
Unsecured retail	(122)	(134)	(161)	(223)	(362)
Total retail	(480)	(731)	(879)	(1,218)	(1,555)
Total Net (Charge-Offs) / Recoveries	\$ (501)	\$ (875)	\$ (1,165)	\$ (1,849)	\$ (2,286)
Ratio of Net Charge-offs to Average Loans and Leases	(0.59)%	(1.01)%	(1.35)%	(2.04)%	(2.21)%
Provision for loan and lease losses:					
Commercial	\$ 13	\$ 48	\$ 123	\$ 182	\$ 439
Commercial real estate	(36)	(84)	39	481	474
Leases	4		(13)	(51)	68
Total commercial	(19)	(36)	149	612	981
Residential, including originated home equity products	170	252	259	251	484
Home equity products serviced by others	43	126	252	410	672
Other secured retail	43	65	74	58	258
Unsecured retail	140	129	89	189	355
Total retail	396	572	674	908	1,769
Unallocated	103	(102)	68	125	14
Total provision for loan and lease losses	\$ 480	\$ 434	\$ 891	\$ 1,645	\$ 2,764
Transfers General Allowance to Qualitative Allowance⁽¹⁾:					
Commercial	\$ 35				
Retail	60				
Unallocated	(95)				
Retail Emergence Period Change⁽²⁾:					
	\$ 96				

Residential, including originated home equity products

Total retail	96				
Unallocated	(96)				
Emergence period change					
Sale/Other:					
Commercial	\$ (5)	\$	\$	\$	\$
Commercial real estate	(1)	(2)			
Total commercial	(6)	(2)			

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	December 31,				
	2013	2012	2011	2010	2009
	(dollars in millions)				
Residential, including originated home equity products	\$ (3)	\$	\$	\$	\$
Unsecured retail	(3)				
Total retail	(6)				
Unallocated	(1)		(33)		
Sale/Other	\$ (13)	\$ (2)	(33)	\$	\$
Allowance for Loan and Lease Losses Ending:					
Commercial	\$ 361	\$ 379	\$ 394	\$ 399	\$ 451
Commercial real estate	79	111	279	401	317
Leases	23	19	18	28	79
Transfers	35				
Total commercial	498	509	691	828	847
Residential, including originated home equity products	348	263	283	301	366
Home equity products serviced by others	102	178	293	385	495
Other secured retail	58	76	95	118	219
Unsecured retail	155	140	145	217	251
Transfers	60				
Total retail	723	657	816	1,021	1,331
Unallocated		89	191	156	31
Allowance for loan and lease losses ending	\$ 1,221	\$ 1,255	\$ 1,698	\$ 2,005	\$ 2,209
Reserve for unfunded lending commitments beginning	\$ 40	\$ 61	\$ 70	\$ 71	\$ 52
Provision (Credit) for unfunded lending commitments	(1)	(21)	(9)	(1)	19
Reserve for unfunded lending commitments ending	\$ 39	\$ 40	\$ 61	\$ 70	\$ 71
Total allowance for credit losses ending	\$ 1,260	\$ 1,295	\$ 1,759	\$ 2,075	\$ 2,280

(1) As discussed in Note 1 Significant Accounting Policies to our audited consolidated financial statements included elsewhere in this prospectus, the allowance for loan and lease losses is reviewed separately for commercial and retail loans, and the allowance for loan and lease losses for each includes an adjustment for qualitative allowance that includes certain risks, factors and events that might not be measured in the statistical analysis. As a result of this adjustment, the unallocated allowance was absorbed into the separately measured commercial and retail qualitative allowance.

(2)

During December 2013, we updated our estimate of the incurred loss period for certain residential mortgages. This change reflected an analysis of defaulted borrowers and aligned to management's view that incurred but unrealized losses emerge differently during various points of an economic/business cycle. See Note 5 Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk, to our audited consolidated financial statements included elsewhere in this prospectus for further detail.

Table of Contents**Allocation of the Allowance for Loan and Lease Losses**

The following table presents an allocation of the allowance for loan and lease losses by class and the percent of each class of loans and leases to total loans and leases:

	2013		2012		December 31, 2011 (dollars in millions)		2010		2009	
Commercial	\$ 361	33%	\$ 379	33%	\$ 394	30%	\$ 399	25%	\$ 451	22%
Commercial real estate	79	8	111	7	279	9	401	10	317	11
Leases	23	5	19	4	18	3	28	4	79	4
Commercial qualitative allowance	35									
Total commercial	498	46	509	44	691	42	828	39	847	37
Residential, including originated home equity products	348	35	263	36	283	38	301	39	366	39
Home equity products serviced by others	102	2	178	3	293	4	385	5	495	6
Other secured retail	58	12	76	12	95	11	118	12	219	13
Unsecured retail	155	5	140	5	145	5	217	5	251	5
Retail qualitative allowance	60									
Total retail	723	54	657	56	816	58	1,021	61	1,331	63
Unallocated			89		191		156		31	
Total	\$ 1,221	100%	\$ 1,255	100%	\$ 1,698	100%	\$ 2,005	100%	\$ 2,209	100%

Deposits

The following table presents the average balances and average interest rates paid for deposits. See Note 10 Deposits to our audited consolidated financial statements included elsewhere in this prospectus for further discussion.

For the Year Ended December 31,
2013 2012 2011

	Average Balances	Average Balances (in millions)	Average Balances
Noninterest-bearing demand deposits ⁽¹⁾	\$ 25,399	\$ 25,053	\$ 21,191

For the Year Ended December 31,

	2013		2012		2011	
	Average Balances	Yields/ Rates	Average Balances	Yields/ Rates	Average Balances	Yields/ Rates
	(dollars in millions)					
Checking with interest	\$ 14,096	0.06%	\$ 13,522	0.08%	\$ 16,116	0.10%
Money market & savings	42,575	0.25	41,249	0.29	37,638	0.25
Term deposits	11,266	0.80	13,534	1.20	16,501	1.54
Total interest-bearing deposits ⁽¹⁾⁽²⁾	\$ 67,937	0.30%	\$ 68,305	0.43%	\$ 70,255	0.52%

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- (1) The aggregate amount of deposits by foreign depositors in domestic offices was approximately \$1 million as of December 31, 2013, 2012, and 2011.
- (2) None of these customer deposit categories exceeded 10% of average total customer deposits for any of the periods presented.

Time Certificates of Deposit of \$100,000 or More

The following table presents the amount of time certificates of deposit of \$100,000 or more, segregated by time remaining until maturity:

	December 31, 2013
	(in millions)
Three months or less	\$ 2,221
After three months through six months	427
After six months through twelve months	718
After twelve months	570
Total term deposits	\$ 3,936

Return on Equity and Assets

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

	December 31,		
	2013	2012	2011
Return on average total assets	(2.83)%	0.50%	0.39%
Return on average common equity	(15.69)	2.69	2.19
Dividend payout ratio	(34.58)	23.31	
Equity to assets ratio	18.06	18.75	18.03

Short-Term Borrowed Funds

The following table presents amounts and weighted-average rates for categories of short-term borrowed funds. See Note 11 Borrowed Funds to our audited consolidated financial statements included elsewhere in this prospectus for further discussion.

**December 31,
2013 2012**

	(in millions)	
Federal funds purchased	\$ 689	\$ 1,905
Securities sold under agreements to repurchase	4,102	1,696
Other short-term borrowed funds	2,251	501
Total short-term borrowed funds	\$ 7,042	\$ 4,102

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	2013	December 31, 2012	2011
	(dollars in millions)		
Weighted-average interest rate at year end:			
Federal funds purchased and securities sold under agreements to repurchase	0.09%	0.10%	0.06%
Other short-term borrowed funds	0.20	0.29	0.20
Maximum amount outstanding at month-end during the year:			
Federal funds purchased and securities sold under agreements to repurchase	\$ 5,114	\$ 4,393	\$ 6,406
Other short-term borrowed funds	2,251	5,050	4,000
Average amount outstanding during the year:			
Federal funds purchased and securities sold under agreements to repurchase	\$ 2,400	\$ 2,716	\$ 3,808
Other short-term borrowed funds	259	3,045	2,645
Weighted-average interest rate during the year:			
Federal funds purchased and securities sold under agreements to repurchase	0.31%	0.22%	0.12%
Other short-term borrowed funds	0.44	0.33	2.51

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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 comprehensive range of retail and commercial banking products and services to approximately 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 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.

Business Segments

Through our two operating segments – Consumer Banking and Commercial Banking – we offer a broad set of banking products and services while providing local delivery and a differentiated customer focus. Because we operate in a highly competitive industry and believe that banking should have a personal touch, we have programs in place to train and prepare our employees to deliver a consistent, high-quality experience through every customer interaction. Furthermore, we seek to ensure that customers select us as their primary banking partner by taking the time to understand their banking needs, and we tailor our full range of products and services accordingly. To that end, our Consumer Banking value proposition is based on providing simple, easy to understand product offerings and a convenient banking experience with a more personalized approach. Commercial Banking focuses on offering a client-centric experience by leveraging an in-depth understanding of our clients – and prospects – businesses in order to proactively provide quality solutions through a broad range of products and services.

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
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)
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⁽¹⁾ Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets and liabilities, 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 the 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.

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- (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.

Our History and Recent Strategic Initiatives

Our history dates back to High Street Bank, founded in 1828, which established Citizens Savings Bank in 1871. Citizens Savings Bank acquired a controlling interest in its founder by the 1940s, renaming the entity Citizens Trust Company. 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:

In 1988, we acquired Fairhaven Savings Bank in Massachusetts, our first retail banking expansion beyond Rhode Island;

In 1996, we moved beyond southern New England when RBS and Bank of Ireland combined their New England banking operations through the merger of Citizens and First NH Bank in New Hampshire;

In 1999 and 2000, we acquired the commercial banking group of State Street Corporation and Boston-based UST Corporation, including its U.S. Trust branches in the Boston area; these acquisitions doubled the size of our Massachusetts operations and made us New England's second-largest bank, with more than \$30.0 billion in assets;

In 2001, we acquired the regional banking business of Mellon Financial Corporation, which included \$14.4 billion in deposits, expanding our retail network outside of New England to Pennsylvania, Delaware and New Jersey; and

In 2004, we completed the largest transaction in our history by acquiring Charter One, which operated approximately 680 branches in nine states, and had \$41.3 billion in assets, and expanded our branch footprint into New York, Vermont, Michigan, Ohio, Illinois and Indiana.

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, more stable secured Federal Home Loan Bank and repurchase agreement borrowings;

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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 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, which are designed 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.

Customer Focus

The focus on performance is complementary to our historic credo, which centers on delivering for customers, colleagues and communities. Ensuring that we are serving customers well, in a superior and differentiated fashion relative to peers, remains key to delivering long-term franchise value. As a result of

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our commitment to serving customers, *Money* magazine named our banking subsidiaries in its 2013 list of The Best Banks in America, and our Commercial Banking middle market business also received a number one rank from Greenwich Associates in key client survey scores compared to the top four competitors in our footprint across a number of categories, including Overall Capability of Relationship Managers and Overall Lead Client Satisfaction. 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 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. 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.

Our Competitive Strengths

Our long history of operations, 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 branch 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 and in the top five in nine of our key metropolitan statistical areas, or MSAs, including Boston, Providence, Philadelphia, 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 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

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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 Base of Core Deposits: 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, 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 banking organizations, while maintaining a solid total capital position, by reducing Tier 1 capital and increasing 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

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of Distribution and Head of Everyday Banking in Consumer Banking, as well as the Head of Technology Banking 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 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.³ 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 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 we believe will further increase and diversify our revenue base in order to deliver more attractive risk-adjusted returns to stockholders. As such, a key component of our strategy to further improve our operating results is focused around prudently growing higher-return earning assets and identifying and capitalizing on more fee income opportunities. We plan to invest more than \$70 million in business initiatives in 2014, the financial benefits of which we expect to begin realizing in the medium term.

Increasing Loan Origination We will seek to prudently expand our balance sheet and drive increased loan origination volume by hiring more than sales professionals in mortgage, small business and auto, as well as by building out our commercial industry focused teams and through increased loan origination volume in mid-corporate and franchise finance over the medium term.

- ³ 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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In mortgage, we are repositioning our origination platform through increased hiring of additional mortgage loan officers over the medium term and increasing capacity through the launch of a new origination and processing platform in the second half of 2014. In addition, we will continue to purchase high-quality mortgage assets in the secondary market through a targeted program.

We expect to accelerate growth in our auto loan portfolio both organically and through loan purchases. Over the past three years we have increased our auto finance representatives by approximately 80%, which has underpinned the expansion of our dealer network from approximately 3,500 to more than 6,200 over the same time period.

In Commercial Banking, we will continue to build out our industry focused teams where, for example, our Healthcare and Technology efforts have resulted in business line net operating income growth of over 50% since 2011. We are successfully recruiting respected industry leaders to bolster our expertise, adding more dedicated resources, and evaluating other specialties such as aerospace, chemicals and energy.

We are extending our origination efforts nationally in the mid-corporate space, which is focused on serving larger, mostly public clients with annual revenue of more than \$500 million. We are selectively expanding geographically where our established expertise and product capabilities can be relevant. The national expansion, launched in the third quarter of 2013, has already added over \$215 million of new loans outstanding, and we are in the process of adding approximately 20 new, dedicated employees to accelerate our progress.

Finally, our franchise finance business is expanding its target market to include additional strong national and regional brands, large and up-and-coming restaurant operating companies and expansion of gas station and convenience dealer penetration.

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.

We continue to invest in attractive markets with higher return profiles, including expansion of our healthcare and technology verticals, where we can utilize our in-depth industry knowledge.

We have increased our commitment to selectively serve the leveraged loan market, which rests on our strengthened capital markets capabilities.

In October 2013, we deployed a fully automated auto loan origination platform with more sophisticated pricing and credit underwriting capabilities that will enable us to prudently originate more attractive risk-adjusted return assets.

We continue to improve our private student lending platform, which we believe is well positioned for growth and includes an education refinance product that is unique in our footprint and serves a critical borrower need.

Driving Additional Fee Income We also intend to transition to a more balanced revenue profile by taking steps to further grow our noninterest income base and reduce our overall reliance on net interest income.

We expect to drive increased growth in Wealth Management by expanding our advisor sales force where we expect to hire an additional 100 to 150 financial consultants and premier bankers, while also training and licensing a number of existing bankers to sell investment products.

We expect to continue to expand our capital markets product and service offerings in order to generate higher fee income.

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With respect to our cash management services, we are in the final stages of a multi-year investment of over \$80 million in domestic cash products and services that will improve the breadth and depth of our product offering. Overall, our improvements support a holistic approach to working capital management via cash management, card and trade products. We have built out a targeted sales model for commercial cards where we have recently added six employees to the team dedicated to card sales and program utilization.

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. These expected savings include reductions in personnel costs (\$ million), lower occupancy expenses (\$ million), leveraging sourcing efficiencies (\$ million) and streamlining operations in other areas (\$ million). We expect that this initiative will reduce our employee base by approximately net employees, including the effect of our adding approximately loan officers, relationship managers and others during the same period. 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.⁴

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 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.

- ⁴ 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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While 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. Our ROTCE targets and the related underlying assumptions are forward-looking statements. We strongly caution investors not to place undue reliance on any of these assumptions or targets. Except as may be required by applicable securities laws, we are not under any obligation (and expressly disclaim any obligation) to update or alter any assumptions, goals, targets, projections or other related statements that we may make. See Special Note Regarding Forward-Looking Statements and Risk Factors, including Risk Factors Our ability to implement our strategic plan and achieve our indicative performance targets requires us to increase our revenue from existing sources, find additional sources of revenue and reduce and control our costs. Because our strategic plans and indicative performance targets are based on assumptions regarding the future, including regarding matters that are beyond our control, there are significant risks that these assumptions may not be realized and thus our goals may not be achieved for additional information regarding these forward-looking statements. For information regarding the calculation of ROTCE, 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.

Consumer Banking Segment

Consumer Banking serves retail customers and small businesses with annual revenues of up to \$25 million through a network that as of March 31, 2014 included approximately 1,350 branches operated in a 12-state footprint across the New England, Mid-Atlantic and Midwest regions, as well as through online, telephone and mobile banking platforms. We have an intense focus on winning, expanding and retaining customers through our Consumer Banking value proposition: *Simple. Clear. Personal.* We believe that offering a wide range of straightforward and understandable banking products and services to customers and prospects, coupled with personal customer service, will enable us to drive enhanced customer loyalty. This commitment to our customers led us to introduce a major operational initiative in 2013: *Bank Better*, a companywide approach to enhancing the banking experience for our customers. Comprising dozens of individual initiatives ranging from improved customer communications to upgrades of both customer-facing and customer-supporting technology, we announced *Bank Better* in December 2013.

Consumer Banking is committed to delivering a differentiated experience with a focus on customer convenience and service. We continue to strive to optimize the effectiveness of our distribution channels in order to adapt to increasing customer preferences for self service banking capabilities and decreasing demand for branch-based services similar to the universal banker model we introduced in January 2013. As a result of our commitment to serving our customers and making improvements in our infrastructure, *Money* magazine named our banking subsidiaries in its 2013 list of

The Best Banks in America. The magazine noted our robust branch and ATM presence, our extended branch hours, and supermarket branch presence with seven-day-a-week service. In addition, we were recently named as the best bank in the U.S. for consumers in the baby boomer generation, according to a study by financial advice website GoBankingRates.com. We have increased our share of wallet penetration to 33% of deposit households also having a consumer loan with us, 69% of checking households utilizing direct deposit and 18% utilizing online bill pay as of March 31, 2014 compared to 23%, 59% and 13%, respectively, as of December 31, 2009. Consumer Banking accounted for \$46.8 billion, or 56%, of the loans in our operating segments as of March 31, 2014.

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Consumer Banking is organized as follows:

Distribution: As of March 31, 2014, our multi-channel distribution system included a network of approximately 1,350 branches, of which 375 were in-store locations, as well as approximately 3,500 ATMs and a workforce of banking specialists ranging from financial consultants and business banking officers to private bankers. Our ATM network includes both owned and branded sites, some of which are located in gas stations, convenience stores and other retail outlets. Our digital platform provides online and mobile capabilities which continue to improve the deployment of banking applications for both Android and Apple smartphones and iPads. This platform provides our customers the convenience of paying bills, transferring money between accounts and from person to person, in addition to a host of other everyday transactions. As of March 31, 2014, we had 1.8 million online banking customers and 571,000 active mobile customers. Lastly, our customer contact center handles approximately 10 million calls annually, providing our customers with extended access to our services.

We continue to focus on improving customer convenience while also optimizing our distribution model. In an effort to better align our distribution channels with evolving customer banking preferences, we closed more than 30 low-performing branches in 2013 and expect to continue to consolidate and reformat a number of branches over the next several years based on market opportunities and evolving customer preferences. We rolled out a new teller platform system across the network in 2013 which both expands customer convenience by providing secure, paperless transaction options at the branch, including debit card identification and simple, easy-to-read receipts, while also creating back office efficiencies. With our rollout of more than 1,600 enhanced ATMs we offer our customers the ability to receive expanded funds availability. Finally, we plan to test new low-cost and highly automated or sales-focused formats in our network to further address the changing preferences of consumers.

Everyday Banking: Provides customers with deposit and payment products and services, including checking, savings, money market, certificates of deposit, debit cards, credit cards and overdraft protection. We have over 1.5 million active debit cards issued and over 640,000 credit cards; 24% of our deposit customers now have a credit card relationship with us, more than double the percentage at the beginning of 2009. This was achieved by instituting more focused cross selling efforts in our branch network, which generates substantially all of our credit card origination volume. The division also

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actively manages the overall deposit portfolio, and since 2009 we have considerably improved our deposit costs from 1.32% to 0.23% in 2013 and 0.15% for the three months ended March 31, 2014. This was done by instituting more disciplined pricing practices and the winding down of non-core, higher cost deposits in the portfolio. In addition, recent product innovation efforts have focused on responding to customer preferences for banking products that are straightforward and easy to understand. As a result, in January 2014 we launched our new One Deposit Checking product which offers a simple and transparent fee structure no monthly maintenance fee with one deposit of any amount each statement cycle and our new \$5 Overdraft Pass, which allows our customers to overdraw their checking and money market accounts without incurring an overdraft fee if the overdraft item is \$5 or less.

Business Banking: Serves small and medium enterprise businesses with annual gross revenue of up to \$25 million through a combination of branch-based employees, Business Banking officers and relationship managers. As of March 31, 2014, the team served approximately 360,000 customers with loans outstanding of \$3.2 billion and deposit balances of \$12.9 billion. We plan to continue to grow our sales force of approximately 300 bankers to over 500 over the next few years, as well as improve our lending infrastructure, expand our credit policy and redesign our Small Business Administration, or SBA program.

Wealth Management: Provides a full range of advisory services to clients with an array of banking, investment and insurance products and services through a sales force of more than 400 financial consultants and private/premier bankers. Through the Premier Banking program, we provide clients that have estimated investable assets of \$500,000 to \$2 million with a complete range of wealth management solutions, including financial planning, private banking, investment management and trust services. Our Premier Banking program is currently available in Massachusetts, Rhode Island, Connecticut, New Hampshire, Philadelphia and Pittsburgh with expansion plans in 2014 and 2015 into other areas of the franchise. Since 2011, Premier Banking households have grown from 12,000 to more than 40,000. In addition to Premier Banking, we also have a Private Bank focused on individuals with over \$2 million in investable assets. We offer tailored solutions to meet the lending, trust, investment and banking needs of our Private Banking clients. As of March 31, 2014, wealth management had approximately \$4.2 billion in assets under management and more than \$17.0 billion in investment brokerage assets.

Home Lending Solutions (HLS): Offers home equity loans, HELOCs and residential mortgages. We serve customers primarily in our 12-state footprint and select out-of-footprint states through both the branch network, a direct to consumer call center and a mortgage loan officer base of 360 as of March 31, 2014. Home equity originations are sourced almost exclusively through our branch network and, based on first quarter 2014 originations, we ranked in the top five in all of our 10 largest markets for HELOCs based on data provided by Equifax. In addition, we ranked sixth nationally in HELOCs by outstanding balances as of March 31, 2014, according to SNL Financial. The home equity portfolio is conservatively underwritten with a refreshed average loan to value of 65% and a refreshed average FICO score of 763. Our mortgage business has grown from an unranked position to a position of relevance over the last four years, ranking 27th nationally among retail originators as reported by Inside Mortgage Finance for the first quarter of 2014. This new mortgage business is also conservatively underwritten with an average FICO of 763 and average loan to value of 69%. The business continues to focus on growing its sales force and improving back office efficiencies and is currently implementing a new origination platform designed to streamline our fulfillment process, enhance productivity and decrease the time from application to close, which is a key driver of customer satisfaction.

Indirect Auto Finance: Provides financing for the purchase of both new and used vehicles through a network of over 6,200 automotive dealerships in 41 states as of March 31, 2014, compared to just

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over 3,400 dealers in 23 states at December 31, 2010. As of March 31, 2014, we ranked 14th nationally among regulated depository institutions, and, in terms of first quarter 2014 originations, we ranked in the top five in seven of our top 10 markets according to Autocount. The average FICO score for 2013 originations was 769 and the mix between new and used cars financed was 61% and 39%, respectively. In addition to expanding the geographic footprint of our business, we implemented a new origination platform in October 2013 that has facilitated more granular credit and pricing strategies and enabled us to selectively pursue credit expansion.

Student Lending: Offers a variety of student loan products including the TruFit Student Loan program, which features no origination, application or disbursement fees, competitive rates and a choice of repayment options. We launched education finance 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. In 2013, 96% of our private student loan originations had co-signors and approximately 75% of our borrowers had a FICO score above 750. In January 2014, we launched an Education Refinance Loan product, which is a loan solution for students that have graduated from college or graduate school and are looking to refinance or consolidate private student loan debt.

Commercial Banking Segment

Commercial Banking primarily targets companies and institutions with annual revenues of \$25 million to \$2.0 billion and strives to serve as the lead bank for its clients with multi-product, long-term, profitable relationships, driven by proactively delivering compelling financial solutions with quality execution and an emphasis on building long-term relationships. While activity is concentrated within the 12-state footprint, Commercial Banking pursues business opportunities nationally on a targeted basis.

We believe our Commercial Banking segment provides a compelling value proposition for our clients as evidenced by our Greenwich Associates top five ranking in both client penetration and number of lead relationships in middle market banking within our footprint based on rolling four-quarter data as of March 31, 2014. In addition, we strengthened our market share in loan syndications from 25th by volume of syndicated loans and 18th by number of syndicated loans in 2010 to 15th by volume and 12th by number in the first quarter of 2014, according to the Thomson Reuters overall national middle market bookrunner league table. Commercial Banking accounted for \$37.1 billion, or approximately 44%, of the loans in our operating segments as of March 31, 2014, up significantly from 36% as of December 31, 2009.

Commercial Banking is composed of lines of business, as well as product groups. The Corporate Finance & Capital Markets and the Treasury Solutions product groups support all lines of business in Commercial Banking. These business lines and product groups work in teams to understand and determine client needs and provide comprehensive solutions to meet those needs. New clients are acquired through a coordinated approach to the market ranging from leveraging deep industry knowledge in specialized banking groups to deploying a regional coverage approach for middle market businesses with targeted profiles that are headquartered in our branch geographic footprint. Complementing these direct, field-based origination activities are telephone and e-marketing-based lead generation programs.

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Commercial Banking is organized as follows:

Corporate Banking: Targets domestic commercial and industrial clients, serving middle-market companies with annual gross revenues of \$25 million to \$500 million and mid-corporate companies with annual revenues of \$500 million to \$2.0 billion. It offers a broad range of products, including lines of credit, term loans, commercial mortgages, domestic and global treasury management solutions, trade services, interest rate products and foreign exchange, providing an average revenue mix of approximately 70% interest income and 30% fee income. Loans are extended on both a secured and unsecured basis, according to the credit profile of the client, and substantially all loans are floating rate loans at varying spreads over LIBOR. The average tenor of our commercial loans varies according to market conditions but currently stands at 3.1 years. Corporate Banking is a general lending practice, but is augmented by an expanding number of specialty lending groups targeting U.S. subsidiaries of foreign corporations, technology companies, government entities, including state governments, counties, municipalities, public schools, trustees, commissions, authorities and districts throughout New England; healthcare companies; not-for-profit and educational institutions throughout the footprint; security alarm companies; and professional firms, including legal, accounting and consulting firms, private trustees, family offices, title insurance companies and real estate investment trusts. The portfolio is well diversified with over 2,000 commercial relationships and approximately \$40.0 billion in commitments. The weighted-average credit profile of Corporate Banking's mid-corporate clients is a low investment grade equivalent, while the middle market is a near investment grade equivalent.

Commercial Finance: Provides clients with a significant depth of resources and services, including equipment acquisition and refinancing, working capital and balance sheet management both in-footprint and on a national basis. It is composed of four lines of business, Asset Finance (equipment finance), Franchise Finance, Business Capital (asset based lending) and Commercial Real Estate.

Asset Finance offers loan and tax- and non-tax-oriented leases, with an average term of six-and-a-half years and a maximum term of 20 years for long-lived assets such as rail cars. The team also offers equipment financing term loans for middle market and mid-corporate companies located in our branch footprint, as well as Fortune 500 companies throughout the United States. All transactions are secured by the assets financed, commitments tend to be fully drawn and most leases and loans are fixed rate. Areas of industry specialization include energy, utilities and chemicals. We also deploy dedicated teams to financing corporate aircraft. Fee income is related to operating lease income, syndications fees and equipment/residual gains.

Franchise Finance provides financing to restaurant companies, convenience stores and gas stations on a national basis. Maturities range from five to 10 years and amortization of five to 20 years is offered, depending on collateral composition. All transactions are secured by the assets financed and commitments tend to be fully drawn. Most of the loans are structured as

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floating rate obligations although many clients elect to fix their interest rate through an interest rate hedge. Areas of focus include McDonald's franchisees; franchisees of quick service, fast casual and casual dining concepts; independent national and regional restaurant chains; and multi-unit retail gas station/convenience store operators.

Business Capital provides secured lending products and services for middle market and mid-corporate companies across a wide range of industries. Industry specialties include retail and lender finance with retail being the largest industry concentration, comprising 22% of the total portfolio as of March 31, 2014. All transactions are secured by a first security interest in the current assets and frequently in all assets. Loans are governed by an asset borrowing base with advances against accounts receivable, inventory and in some cases certain fixed assets and/or intangibles. Typical maturities are three years to five years.

Commercial Real Estate provides customized debt capital solutions for middle market and institutional developers and investors as well as real estate investment trusts (REITs). We provide financing for projects in the office, multi-family, industrial, core retail, healthcare and hospitality sectors. Loan types include construction financing, term debt and lines of credit. Most loans are secured by commercial real estate properties and all are non-owner occupied. Any owner-occupied commercial real estate would be originated through our Corporate Banking business. REIT credit facilities are typically unsecured but based upon an advance formula on unlevered real estate holdings. Portfolio concentrations consist of 23% office, 25% multi-family, 19% retail, 6% industrial, 5% hospitality and 6% healthcare as of March 31, 2014. Our prudent credit underwriting standards and sound risk management practices, along with the benefit of improved economic conditions, resulted in a net recovery (i.e., recoveries exceeding charge-offs) of 20 basis points for 2013. In addition, nonaccrual loans have declined by over 80% from year-end 2010 and net income has increased by more than 300%.

Corporate Finance & Capital Markets: The product groups include debt capital markets, corporate finance, strategic client acquisitions, foreign exchange and interest rate risk management services and financial advisory and equity capital markets services under a referral agreement with Oppenheimer & Co., Inc. (Oppenheimer). The lines of business include the centralized leveraged finance team, which provides leveraged financing solutions; the private equity team, which serves the unique and time-sensitive needs of private equity firms, management companies and funds; and the sponsor finance team, which provides acquisition and follow-on financing for new and recapitalized portfolio companies. Since 2010, we have dedicated a substantial amount of time and resources to building our capital markets capabilities. We have added key hires with capital markets, leveraged finance and loan syndication expertise to enhance our ability to provide thoughtful and timely advice to clients.

Capital Markets originates, structures and underwrites multibank credit facilities. We target middle market, mid-corporate and private equity sponsors with a focus on offering value-added ideas to optimize their capital structure. We are able to originate and distribute senior and second lien debt through our sales desk and work with RBS to originate investment grade and high yield bonds along with convertible debt. Additionally, Capital Markets has expanded its loan sales capabilities allowing a focus on institutional relationships beyond RBS' core investors. The group is in the final stages of building a secondary loan trading desk which is the next critical step following the expansion of the distribution business. From 2010 through the first quarter of 2014, Capital Markets has been involved in closing 372 transactions and has served in the lead-left role on 168 transactions and as joint lead arranger on 204 transactions. Our experience and execution capabilities have catapulted our league table standings from 25th by volume of syndicated

loans and 18th by number of syndicated loans in 2010 to 15th by volume and 12th by number in the first quarter of 2014, according to the Thomson Reuters overall national middle market bookrunner league table.

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Corporate Finance provides advisory services to middle market and mid-corporate companies. Services include M&A, equity private placements and capital structure advisory. The team works closely with industry sector specialists within debt capital markets on proprietary transaction development which serves to originate deal flow in multiple bank products. The team is also responsible for coordinating the financial advisory and equity capital markets referral agreement with Oppenheimer.

Global Markets is a customer-facing business providing foreign exchange and interest rate risk management services:

Interest Rate Products is a customer-facing business providing interest rate risk management services to help companies mitigate risks associated with interest rate volatility.

Foreign Exchange is a customer-facing business that provides foreign exchange payment and risk management services to help companies mitigate risk associated with currency fluctuations. Global Markets FX provides payment and risk management products to assist its corporate and consumer customers. We offer clients cross-border payable and receivable solutions in over 125 local currencies by utilizing a global network of correspondent partner banks. These services allow our customers to maximize returns on assets and minimize exchange rate costs.

Leveraged Finance offers debt financing solutions for middle market and mid-corporate companies supporting acquisition, recapitalization, refinancing, and growth capital transactions across a wide range of industries. Transactions are typically secured by a first security interest in the company's assets and include public, private, and private equity owned entities. Leveraged Finance is responsible for the underwriting, execution, and portfolio management of our leveraged cash flow transactions.

The Private Equity Banking Group specializes in banking services to private equity funds, venture capital funds, infrastructure funds, credit funds and secondary funds. These services include capital call revolving lines of credit, management company lines of credit, and associated banking products and services such as cash management, foreign exchange and wealth management.

Strategic Client Acquisition (SCA) was created to accelerate new client relationships through active participation in primary and secondary loan markets. The team efficiently sources transactions through long-established relationships in traditional pro rata markets as well as institutional, or term loan B, markets across all sectors. The combination of pro rata and term loan B tranches allows our traditional banking team to forge new relationships and accelerate existing relationship development while generating highly accretive returns.

Treasury Solutions: Supports all lines of business in Commercial Banking and Business Banking with treasury management solutions, including domestic and international cash management, commercial cards and trade finance. Treasury Solutions provides services to the smallest business banking clients (\$500,000 annual revenue) to our largest mid-corporate clients (over \$2.0 billion annual revenue). Treasury Solutions manages the client experience end to end, from product development to sales to implementation to client services. Treasury Solutions offers a range of innovative products and services to meet clients' treasury management needs, which typically include enhancing cash

flow, maintaining liquidity, automating reconciliation and posting, and mitigating fraud. Traditional domestic cash management products solve client needs related to receivables, payables, information reporting and liquidity management. Receivables products include wholesale and retail lockbox, remote deposit capture, image cash letter, integrated receivables including automated clearinghouse house, or ACH, and wire data and coin and currency. Receivables products help our customers reduce days sales outstanding by collecting their receivables faster and posting information to their accounts receivable or

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enterprise resource planning, or ERP, systems more efficiently. Payables products include ACH, wire transfer, account reconciliation, integrated payables, electronic invoice payment and presentment, commercial cards and ePayables. Payables products help our clients pay efficiently, maximize working capital by extending days payables outstanding, and reconcile their payments to their accounts payable or ERP systems. Treasury Solutions offers robust information reporting services led by our commercial online banking system and augmented by alternate reporting channels including email, transmission, phone and fax. Our liquidity management solutions, including zero balance accounts, sweep-to-investment, and sweep-to-line help our clients maximize working capital by eliminating idle balances. Treasury Solutions offers international solutions to our clients including cash management solutions in Canada and trade finance solutions such as import and export letters of credit, bankers acceptance and supply chain finance.

Competition

The financial services industry in general and in our branch footprint is highly competitive. Our branch footprint is in the New England, Mid-Atlantic and Midwest regions, though certain lines of business serve broader, national markets. Within those markets we face competition from community banks, super-regional and national financial institutions, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies and money market funds. Competition among providers of financial products and services continues to increase, with consumers having the opportunity to select from a growing variety of traditional and nontraditional alternatives. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition.

In Consumer Banking, the industry has become increasingly dependent on and oriented towards technology-driven delivery systems, permitting transactions to be conducted by telephone and computer, as well as through online and mobile channels. In addition, technology has lowered the barriers to entry and made it possible for non-bank institutions to attract funds and provide lending and other financial services in our footprint despite not having a physical presence within our footprint. Given their lower cost structure, these institutions are often able to offer rates on deposit products that are higher than what may be average for the market for retail banking institutions with a traditional branch footprint, such as us. The primary factors driving competition for loans and deposits are interest rates, fees charged, customer service levels, convenience, including branch location and hours of operation, and the range of products and services offered. In particular, the competition for home equity lines and auto loans has intensified, resulting in pressure on pricing.

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

Intellectual Property

In the highly competitive banking industry in which we operate, trademarks, service marks, trade names and logos are important to the success of our business. We own and license a variety of trademarks, service marks, trade names, logos and pending registrations and are spending significant resources to develop our stand-alone brands. In connection with this offering, we expect to enter into a trademark license agreement, pursuant to which we will be granted a limited license to use certain

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trademarks (including the daisywheel logo) from RBS for 10 years following the completion of the offering. 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 our 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 then 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.

Information Technology Systems

We have recently made and continue to make significant investments in our information technology systems for our banking and lending and cash management activities. We believe this is necessary investment in order to offer new products and improve our overall customer experiences, as well as to provide scale for future growth and acquisitions. The technology investments include replacing systems that support our branch tellers, commercial loans, automobile loans and treasury solutions. Additional investments that are in process include creating an enterprise data warehouse to capture and manage data to better understand our customers, identify our capital requirements and support regulatory reporting and a new mortgage system for our home lending solutions business.

Employees

As of March 31, 2014, we had approximately 18,400 employees, which included approximately 18,200 full-time employees and 875 part-time employees, including employees on leave. In addition, we had approximately 630 positions filled by temporary employees. None of our employees are parties to a collective bargaining agreement. We consider our relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements.

Properties

Our headquarters is in Providence, Rhode Island. As of March 31, 2014, we leased approximately 6.1 million square feet of office and retail branch space. Our portfolio of leased space consists of 4.2 million square feet of retail branch space which spans 12 states and 2.0 million square feet of non-branch office space. As of March 31, 2014, we owned an additional 1.2 million square feet of office and branch space. We operate 82 branches in Rhode Island, 46 in Connecticut, 251 in Massachusetts, 21 in Vermont, 74 in New Hampshire, 149 in New York, 12 in New Jersey, 362 in Pennsylvania, 23 in Delaware, 122 in Ohio, 98 in Michigan and 103 in Illinois. Of these branches, 1,284 are leased and the rest are owned. Management believes the terms of the various leases are consistent with market standards and were arrived at through arm's-length bargaining. We also believe that our properties are in good operating condition and adequately serve our current business operations. We anticipate that suitable additional or alternative space, including those under lease options, will be available at commercially reasonable terms for future expansion.

Legal and Regulatory Proceedings

We operate in a legal and regulatory environment that exposes us to potentially significant risks. In addition to the matters described below, in the normal course of business, we are named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our activities as a banking institution, including with respect to allegations of

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unfair or deceptive business practices and mis-selling of certain products. Actual or threatened legal actions against us include claims for substantial amounts of compensatory damages, claims for intermediate amounts of compensatory damages and claims for punitive damages. For additional information, see Note 16 Commitments, Guarantees and Contingencies to our audited consolidated financial statements included elsewhere in this prospectus.

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

We contest liability and the amount of damages as appropriate in each pending matter. Where available information indicates that it is probable a liability has been incurred at the date of the consolidated financial statements and we can reasonably estimate the amount of that loss, we accrue the estimated loss as a charge to income.

In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. 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 before liability can be reasonably estimated, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages and by addressing novel or unsettled legal questions relevant to the proceedings in question.

Set out below are descriptions of significant legal matters in which we are involved. Subject to the foregoing, and based on current knowledge, consultation with counsel and established reserves, we believe that the outcome of such proceedings will not have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Consumer Products

The activities of our banking subsidiaries are subject to extensive laws and regulations concerning unfair or deceptive acts or practices in connection with customer products. Certain of our banking subsidiaries practices with respect to overdraft protection and other consumer products have not met applicable standards. Our banking subsidiaries have implemented and are continuing to implement changes to bring their practices in conformity with applicable laws and regulations. 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 restitution is currently anticipated to be approximately \$8 million, and that amount is fully covered by an existing reserve. The Consent Orders also require our banking subsidiaries to cease and desist any operations in violation of Section 5 of the Federal Trade Commission Act, and to submit to the regulators periodic written progress reports regarding compliance with the Consent Orders. In addition, CBNA agreed to take certain remedial actions to

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improve its compliance risk management systems and to create a comprehensive action plan designed to achieve compliance with the Consent Order. Restitution plans have been prepared and submitted for approval, and CBNA has submitted for approval and is in the process of implementing its action plan for compliance with the Consent Order, as well as updated policies, procedures, and programs related to its compliance risk management systems.

Our banking subsidiaries have also identified issues regarding, among other things, certain identity theft and debt cancellation products, certain overdraft fees, signature debit card fees, our banking subsidiaries' policies and practices with respect to identifying and correcting errors in customer deposits, and the charging of cost-based credit card late payment fees. Our banking subsidiaries have paid restitution, or expect to pay restitution, to certain affected customers in connection with certain of these practices. In addition, our banking subsidiaries may face formal administrative enforcement actions from their federal and other governmental supervisory agencies, including the assessment of civil monetary penalties and restitution, relating to the past practices and policies identified above and other consumer products, and they could also face potential civil litigation. For further information regarding risks related to regulatory actions, please refer to **Risk Factors** **Risks Related to Our Business** **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** and **Risk Factors** **Risks Related to Regulations Governing Our Industry** We are and may be subject to regulatory actions that may have a material impact on our business.

Fair Labor Standards Act Litigation

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

Telephone Consumer Protection Act Litigation

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

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LIBOR Litigation

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

Foreclosure-Related Expenses

In May 2013, the civil division of the U.S. Attorney's Office for the Southern District of New York served a subpoena pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 seeking information regarding home mortgage foreclosure expenses submitted for reimbursement to the United States Department of Housing and Urban Development, the Federal National Mortgage Association, or the Federal Home Loan Mortgage Corporation. We are cooperating with the investigation.

Mortgage Repurchase Demands

We are an originator and servicer of residential mortgages and routinely sell such mortgage loans in the secondary market and to government-sponsored entities. In the context of such sales, we make certain representations and warranties regarding the characteristics of the underlying loans and, as a result, may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of those representations and warranties. Between 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 for 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 or our ultimate exposure will be, and cannot give any assurance that the historical experience will continue in the future. It is possible that the volume of repurchase demands will increase. In addition to the above, we have since December 2013 been responding to subpoenas issued by the Office of the Inspector General for the Federal Housing Finance Agency seeking information about loans sold to the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation from 2003 through 2011.

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REGULATION AND SUPERVISION

Our operations are subject to extensive regulation, supervision and examination under federal and state law. These laws and regulations cover all aspects of our business, including lending practices, safeguarding deposits, customer privacy and information security, capital structure, transactions with affiliates and conduct and qualifications of personnel. These laws and regulations are intended primarily for the protection of depositors, the Deposit Insurance Fund and the banking system as a whole and not for the protection of shareholders and creditors.

In 2010, President Obama signed into law the Dodd-Frank Act, which restructured the financial regulatory regime in the United States. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, addressing, among other things, systemic risk, capital adequacy, deposit insurance assessments, consumer financial protection, derivatives, restrictions on an insured bank's transactions with its affiliates, lending limits and mortgage-lending practices. Various provisions of the Dodd-Frank Act, discussed in greater detail below, require the issuance of many implementing regulations which will take effect over several years, making it difficult to anticipate the overall impact to us, our subsidiaries or the financial industry more generally. While the overall impact cannot be predicted with any degree of certainty, the Dodd-Frank Act will affect us across a wide range of areas.

As a result of and in addition to new legislation aimed at regulatory reform, such as 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, the Federal Reserve Board, the OCC and the FDIC, as well as the new CFPB, have taken a generally 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 for the foreseeable future.

General

As a bank holding company and financial holding company (as defined in the Bank Holding Company Act), we are subject to regulation, supervision and examination by the Federal Reserve Board, through the Federal Reserve Bank of Boston.

CBNA is a national banking association. As such, it is subject to regulation, examination and supervision by the OCC as its primary federal regulator and by the FDIC as the insurer of its deposits.

CBPA is a Pennsylvania-chartered savings bank. Accordingly, it is subject to supervision by the Department of Banking of the Commonwealth of Pennsylvania (the PA Banking Department), as its chartering agency, and regulation, supervision and examination by the FDIC as the primary federal regulator of state-chartered savings banks and as the insurer of its deposits.

A principal objective of the U.S. bank regulatory system is to protect depositors by ensuring the financial safety and soundness of banks. To that end, the banking regulators have broad regulatory, examination and enforcement authority. The regulators regularly examine our operations, and CFG and our banking subsidiaries are subject to periodic reporting requirements.

The regulators have various remedies available if they determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of a

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banking organization's operations are unsatisfactory. The regulators may also take action if they determine that the banking organization or its management is violating or has violated any law or regulation. The regulators have the power to, among other things:

enjoin unsafe or unsound practices;

require affirmative actions to correct any violation or practice;

issue administrative orders that can be judicially enforced;

direct increases in capital;

direct the sale of subsidiaries or other assets;

limit dividends and distributions;

restrict growth;

assess civil monetary penalties;

remove officers and directors; and

terminate deposit insurance.

CBNA and CBPA are subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged and limitations on the types of investments that may be made, activities that may be engaged in, the opening and closing of branches and types of services that may be offered. The consumer lending and finance activities of CBNA and CBPA are also subject to extensive regulation under various federal and state laws. These statutes impose requirements on the making, enforcement and collection of consumer loans and on the types of disclosures that must be made in connection with such loans. CBNA and CBPA and certain of their subsidiaries are also prohibited from engaging in certain tie-in arrangements in connection with extensions of credit, leases or sales of property, or furnishing products or services.

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

Procedures Act.

The Dodd-Frank Act established the Financial Stability Oversight Council, which has oversight authority for monitoring and regulating systemic risk, and can recommend prudential standards, reporting and disclosure requirements to the Federal Reserve Board for systemically important financial institutions.

Financial Holding Company Regulation

The Gramm-Leach-Bliley Act of 1999 (GLBA) permits a qualifying bank holding company to become a financial holding company. Financial holding companies may engage in a broader range of activities than those permitted for a bank holding company, which are limited to (i) banking, managing or controlling banks, (ii) furnishing services to or performing services for subsidiaries and (iii) activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. GLBA broadens the scope of permissible activities for financial holding companies to include, among other things, securities underwriting and dealing, insurance underwriting and brokerage, merchant banking and other activities that are declared by the Federal Reserve Board, in cooperation with the Treasury Department, to be financial in nature or incidental thereto or that the

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Federal Reserve Board declares unilaterally to be complementary to financial activities. In addition, a financial holding company may conduct permissible new financial activities or acquire permissible non-bank financial companies with after-the-fact notice to the Federal Reserve Board.

We have elected and qualified for financial holding company status under the GLBA. To maintain financial holding company status, a financial holding company and its banking subsidiaries must remain well capitalized and well managed, and maintain a Community Reinvestment Act (CRA) rating of at least Satisfactory. If a financial holding company ceases to meet these requirements, the Federal Reserve Board's regulations provide that we must enter into an agreement with the Federal Reserve Board to comply with all applicable capital and management requirements. Until the financial holding company returns to compliance, the Federal Reserve Board may impose limitations or conditions on the conduct of its activities, and the company may not commence any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the Federal Reserve Board. Any restrictions imposed on our activities by the Federal Reserve Board may not necessarily be made known to the public. If the company does not return to compliance within 180 days, the Federal Reserve Board may require divestiture of the company's depository institutions. Failure to satisfy the financial holding company requirements could also result in loss of financial holding company status. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state.

The OCC recently determined that CBNA is not currently both well capitalized and well managed, as those terms are defined in applicable regulations, based on certain minimum capital ratios and supervisory ratings, respectively, and consequently no longer meets the conditions 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 the OCC Agreement pursuant to which it must develop a remediation plan, which must be approved by the OCC, setting forth the specific actions it will take to bring itself back into compliance with the conditions to own a financial subsidiary and the schedule for achieving that objective. Until CBNA satisfactorily addresses the deficiencies, it will be subject to restrictions on its ability to acquire control or build an interest in any new financial subsidiary and to commence new activities in any existing financial subsidiary, without the prior approval of the OCC. If CBNA fails to remediate the condition within 180 days after receipt of the OCC Agreement, 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.

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 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.

Currently, under 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.

Standards for Safety and Soundness

The FDIA requires the Federal Reserve Board, OCC and FDIC to prescribe operational and managerial standards for all insured depository institutions, including CBNA and CBPA. The agencies

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have adopted regulations and interagency guidelines which set forth the safety and soundness standards used to identify and address problems at insured depository institutions before capital becomes impaired. If an agency determines that a bank fails to satisfy any standard, it may require the bank to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and soundness compliance plans.

Under Section 619 of the Dodd-Frank Act, which codifies the Federal Reserve Board's long-standing source of strength doctrine, any bank holding company that controls an insured depository institution must serve as a source of financial and managerial strength for its depository institution subsidiary. The statute defines source of financial strength as the ability to provide financial assistance in the event of the financial distress at the insured depository institution. The Federal Reserve Board may require a bank holding company to provide such support at times when it may not have the financial resource to do so or when doing so is not otherwise in the interests of CFG or its shareholders or creditors.

CBPA is also subject to supervision by the PA Banking Department. The PA Banking Department may order any Pennsylvania-chartered savings bank to discontinue any violation of law or unsafe or unsound business practice. It may also order the termination of any trustee, officer, attorney or employee of a savings bank engaged in objectionable activity.

Dividends

Various federal and state statutory provisions and regulations, as well as regulatory expectations, limit the amount of dividends that we and our subsidiaries may pay. Dividends payable by CBNA, as a national bank subsidiary, are limited to the lesser of the amount calculated under a recent earnings test and an undivided profits test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net income combined with the retained net income of the two preceding years, less any required transfers to surplus, unless the national bank obtains the approval of the OCC. Under the undivided profits test, a dividend may be paid only to the extent that retained net profits (as defined and interpreted by regulation), including the portion transferred to surplus, exceed bad debts (as defined by regulation). CBNA is currently required to seek the OCC's approval prior to paying any dividends to us. Federal bank regulatory agencies have issued policy statements which provide that FDIC-insured depository institutions and their holding companies should generally pay dividends only out of their current operating earnings. Under Pennsylvania law, CBPA may declare and pay dividends only out of accumulated net earnings. It may not declare dividends unless its retained earnings equal or exceed contributed capital.

Furthermore, with respect to both CBNA and CBPA, 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, depending on the financial condition of the bank, could include the payment of dividends), the regulator may require, after notice and hearing, that such bank cease and desist from such practice. The OCC and the FDIC have indicated that the payment of dividends would constitute an unsafe and unsound practice if the payment would reduce a depository institution's capital to an inadequate level.

Supervisory stress tests conducted by the Federal Reserve Board in connection with its annual CCAR process affect our ability to make capital distributions. As part of the CCAR process, the Federal Reserve Board evaluates institutions' capital adequacy and internal capital adequacy assessment processes to ensure that they have sufficient capital to continue operations during periods of economic and financial stress. The Federal Reserve Board must approve any planned distribution of capital in connection with the CCAR process. In March 2014, the Federal Reserve Board objected on qualitative grounds to our capital plan for the one-year period ending March 31, 2015 submitted as part of the CCAR process. In its public report entitled Comprehensive Capital Analysis and Review 2014:

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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 (for capital plan purposes, the one-year period ended March 31, 2014) 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, the ability of banks and bank holding companies to pay dividends and make other forms of capital distribution will also depend on their ability to maintain a sufficient capital conservation buffer under the U.S. Basel III capital framework (described further below). The capital conservation buffer requirements will be phased in beginning on January 1, 2016. The ability of banks and bank holding companies to pay dividends, and the contents of their respective dividend policies, could be impacted by a range of regulatory changes made pursuant to the Dodd-Frank Act, many of which still require final implementing rules to become effective.

Federal Deposit Insurance Act

The FDIA imposes various requirements on insured depository institutions. For example, the FDIA requires, among other things, that the federal banking agencies take prompt corrective action in respect of depository institutions that do not meet minimum capital requirements, which are described below in Capital. The FDIA sets forth the following five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institution's capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors that are established by regulation.

The FDIA prohibits any depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. For a capital restoration plan to be acceptable, among other things, the depository institution's parent holding company must guarantee that the institution will comply with the capital restoration plan. If a depository institution fails to submit an acceptable capital restoration plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, orders to elect a new board of directors, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

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

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The FDIA requires CBNA and CBPA to pay deposit insurance assessments. Deposit insurance assessments are based on average consolidated total assets, less average tangible equity and various other regulatory factors included in a FDIC assessment scorecard. Deposit insurance assessments are also affected by the minimum reserve ratio with respect to the Deposit Insurance Fund (DIF). The minimum reserve ratio is currently 2%, and the FDIC is free to increase this ratio in the future.

Under the FDIA, banks may also be held liable by the FDIC for certain losses incurred, or reasonably expected to be incurred, by the DIF. Either CBNA and CBPA may be liable for losses caused by the other s default and also may be liable for any assistance provided by the FDIC to the other if it is in danger of default.

Capital

We must comply with capital adequacy standards established by the Federal Reserve Board. CBNA and CBPA must comply with similar capital adequacy standards established by the OCC and FDIC, respectively. We currently have capital in excess of the well capitalized standards described below. For more detail on our regulatory capital, see Management s Discussion and Analysis of Financial Condition and Results of Operation Capital.

Capital Requirements Applicable to Us, As Currently in Effect

The Federal Reserve Board has adopted guidelines pursuant to which it assesses the adequacy of capital as part of its examination and supervision of a bank holding company. These guidelines include quantitative measures that assign risk weights to a bank holding company s assets, exposures and off-balance sheet items to determine its risk-weighted assets and that define and set minimum regulatory capital requirements.

Under existing regulatory capital rules applicable to us and our banking subsidiaries, capital is divided into two tiers. Tier 1 capital consists principally of stockholders equity less any amounts of goodwill, other intangible assets, non-financial equity investments and other items that are required to be deducted. Tier 2 capital consists principally of perpetual and trust preferred stock that is not eligible to be included as Tier 1 capital, term subordinated debt, intermediate-term preferred stock and, subject to limitations, general allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics. Quarterly average on-balance sheet assets for purpose of the leverage ratio do not include goodwill, other intangible assets or items that the Federal Reserve Board has determined should be deducted from Tier 1 capital.

Under the capital adequacy guidelines currently in effect, bank holding companies must maintain a Tier 1 risk-based capital ratio of at least 4%, a total risk-based capital ratio of at least 8% and a leverage ratio of at least 4%. To qualify as well capitalized, a bank holding company must maintain a Tier 1 risk-based capital ratio of at least 6%, a total risk-based capital ratio of at least 10% and a leverage ratio of at least 5%.

Basel III Final Rules Applicable to Us and Our Banking Subsidiaries

In July 2013, the Federal Reserve Board, OCC and FDIC issued the U.S. Basel III final rule. The final rule implements the Basel III capital framework and certain provisions of the Dodd-Frank Act, including the Collins Amendment, which establishes minimum risk-based capital and leverage requirements on a consolidated basis for insured depository institutions and their bank holding companies. Certain aspects of the final rule, such as the new minimum capital ratios, changes to the prompt corrective action ratios to reflect the higher minimum capital ratios for the various capital tiers and the revised methodology for calculating risk-weighted assets, will become effective on January 1,

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2015. Other aspects of the final rule, such as the capital conservation buffer and the new regulatory deductions from and adjustments to capital, will be phased in over several years beginning on January 1, 2015.

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 that will apply to all U.S. banking organizations. Failure to maintain the capital conservation buffer will result in increasingly stringent restrictions on a banking organization's ability to make dividend payments and other capital distributions and pay discretionary bonuses to executive officers. The final rule also increases the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6%, while maintaining the current minimum total risk-based capital ratio of 8%. In addition, for the largest and most internationally active U.S. banking organizations, the final rule includes a new minimum supplementary leverage ratio that takes into account certain off-balance sheet exposures.

The U.S. Basel III final rule focuses regulatory capital on Common Equity Tier 1 capital, and introduces new regulatory adjustments and deductions from capital as well as narrower eligibility criteria for regulatory capital instruments. Consistent with the requirements of the Collins Amendment, the new eligibility criteria for regulatory capital instruments results in, among other things, trust preferred securities no longer qualifying as Tier 1 capital for bank holding companies, such as us. The final rule also revises the methodology for calculating risk-weighted assets for certain types of assets and exposures.

Liquidity Standards

The Federal Reserve Board evaluates our liquidity as part of the supervisory process. In October 2013, the Federal Reserve Board, OCC and FDIC proposed a rule to implement the Basel III LCR. The LCR is a quantitative liquidity metric designed by the Basel Committee to ensure that banks have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. The Basel Committee contemplates that major jurisdictions will begin to phase in the LCR requirement on January 1, 2015. The proposed rule would apply a modified version of the LCR to large bank holding companies such as us. The modified version of the LCR differs in certain respects from the Basel Committee's version of the LCR, including 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.

Basel III also will impose a NSFR, a quantitative liquidity metric designed to promote the resilience of a bank's liquidity risk profile over a longer period than the LCR. The NSFR establishes a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution's assets and activities over a one-year horizon. The NSFR has been developed to provide a sustainable maturity structure of assets and liabilities. The Basel Committee contemplates that the NSFR, including any revisions, will be implemented as a minimum standard by January 1, 2018. Federal banking regulators have not yet proposed rules to implement the NSFR in the United States.

In addition, under the Dodd-Frank Act the Federal Reserve Board has implemented enhanced prudential standards for bank holding companies with \$50 billion or more in total consolidated assets. See [Enhanced Prudential Standards](#). These regulations will require us to conduct regular liquidity stress testing over various time horizons and to maintain a buffer of higher liquid assets sufficient to cover expected net cash outflows and projected loss or impairment of funding sources for a short-term liquidity stress scenario. This liquidity buffer requirement is designed to complement the Basel III LCR, but how the two requirements will interact as they are implemented is not yet clear.

Table of Contents***Stress Testing Requirements***

The Federal Reserve Board, OCC and FDIC have promulgated final rules under the Dodd-Frank Act requiring us, CBNA and CBPA to conduct annual stress tests and publish a summary of the results. Separately, the Federal Reserve Board has issued an interim final rule specifying how large bank holding companies should incorporate the U.S. Basel III capital standards into their 2014 capital plan and stress test capital projections. Among other things, the interim final rule requires large bank holding companies to project both their Common Equity Tier 1 risk-based capital ratio using the methodology under existing capital guidelines and their Common Equity Tier 1 risk-based capital ratio under the U.S. Basel III capital standards, as such standards phase in over the nine-quarter planning horizon.

Final Regulations Under the Volcker Rule

In December 2013, the Federal Reserve Board, OCC and FDIC issued final rules to implement the Volcker Rule. The Volcker Rule prohibits an insured depository institution, such as CBNA and CBPA, and its affiliates from (1) engaging in proprietary trading or (2) investing in or sponsoring certain types of funds, both subject to certain limited exceptions. These prohibitions are expected to impact the ability of U.S. banking organizations to provide investment management products and services that are competitive with non-banking firms generally and with non-U.S. banking organizations in overseas markets. The final rules would also effectively prohibit short-term trading strategies by any U.S. banking organization if those strategies involve instruments other than those specifically permitted for trading.

Resolution Plans

Federal Reserve Board and FDIC regulations require bank holding companies with more than \$50 billion in assets to submit resolution plans that, in the event of material financial distress or failure, establish the rapid, orderly and systemically safe liquidation of the company under the bankruptcy code. Insured depository institutions with more than \$50 billion in assets must submit to the FDIC a resolution plan whereby they can be resolved in a manner that is orderly and that ensures that depositors will receive access to insured funds within certain required timeframes. If the Federal Reserve Board and the FDIC determine that a company's resolution plan is not credible, and the company fails to cure the deficiencies in a timely manner, then the Federal Reserve Board and the FDIC may jointly impose on the company, or on any of its subsidiaries, more stringent capital, leverage or liquidity requirements or restrictions on growth, activities or operations, or require the divestment of certain assets or operations. We timely submitted our resolution plan, jointly with RBS, on July 1, 2013. When RBS no longer controls us for bank regulatory purposes, we will separately file our own resolution plan with the Federal Reserve Board and FDIC.

Enhanced Prudential Standards

The Dodd-Frank Act requires the Federal Reserve Board to impose liquidity, single counterparty credit limits, risk management and other enhanced prudential standards for bank holding companies with \$50 billion or more in total consolidated assets, including us. The Federal Reserve Board on February 18, 2014 approved a final rule implementing certain of the enhanced prudential standards. Under the final rule, we will have to comply with various liquidity risk management standards and maintain a liquidity buffer of unencumbered highly liquid assets based on the results of internal liquidity stress testing. The final rule also establishes certain requirements and responsibilities for our risk committee and mandates certain risk management standards. The final rule establishes a compliance date of January 1, 2015, for these new standards. Final rules on single counterparty credit limits and an early remediation framework have not yet been promulgated.

The enhanced prudential standards rules also 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

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requirement to establish by July 1, 2016 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 requirements, as well as other regulations. Although the timing of our separation from the RBS Group is uncertain, the RBS Group will likely 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 a subsidiary of the RBS Group. If we become a subsidiary of an 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 that it holds in other RBS Group U.S. companies.

Heightened Expectations

In January 2014, the OCC proposed guidelines that would establish heightened standards for large national banks with average total consolidated assets of \$50 billion or more, including CBNA. The proposed guidelines set forth minimum standards for the design and implementation of a bank's risk governance framework, and minimum standards for oversight of that framework by a bank's board of directors. The proposed guidelines are an extension of the OCC's heightened expectations for large banks that the OCC began informally communicating to certain banks in 2010. The proposed guidelines are intended to protect the safety and soundness of covered banks and improve bank examiners' ability to assess compliance with the OCC's expectations. Under the proposed guidelines, a bank could use certain components of its parent company's risk governance framework, but the framework must ensure the bank's risk profile is easily distinguished and separate from the parent for risk management purposes. A bank's board of directors would be required to have two members who are independent of the bank and parent company management. A bank's board of directors would be responsible for ensuring the risk governance framework meets the standards in the proposed guidelines, providing active oversight and a credible challenge to management's recommendations and decisions and ensuring that the parent company decisions do not jeopardize the safety and soundness of the bank.

Protection of Customer Personal Information

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

Federal and state banking agencies have prescribed standards for maintaining the security and confidentiality of consumer information, and we are subject to such standards, as well as certain federal and state laws or standards for notifying consumers in the event of a security breach.

Anti-Tying Restrictions

Generally, a bank may not extend credit, lease, sell property or furnish any services or fix or vary the consideration for them on the condition that (1) the customer obtain or provide some additional credit, property or services from or to that bank or its bank holding company or their subsidiaries or (2) the customer not obtain some other credit, property or services from a competitor, except to the extent reasonable conditions are imposed to assure the soundness of the credit extended. A bank may, however, offer combined-balance products and may otherwise offer more favorable terms if a customer obtains two or more traditional bank products. Certain foreign transactions are exempt from the general rule.

Table of Contents***Community Reinvestment Act Requirements***

The CRA requires the banking agencies to evaluate the record of us and our banking subsidiaries in meeting the credit needs of our local communities, including low and moderate income neighborhoods. These evaluations are considered in evaluating mergers, acquisitions and applications to open a branch or facility and, in the case of a bank holding company that has elected financial holding company status, a CRA rating of *satisfactory* is required to commence certain new financial activities or to acquire a company engaged in such activities. We received a rating of *satisfactory* in our most-recent CRA evaluation.

Rules Affecting Debit Card Interchange Fees

The Federal Reserve Board issued final rules, effective October 1, 2011, establishing standards, including a cap, for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions. In July 2013, a U.S. federal district court invalidated the Federal Reserve Board's interchange fee rule in favor of a group of retailers who argued that the Federal Reserve Board had inappropriately set the new limits on interchange fees too high. The Federal Reserve Board successfully appealed the district court decision and the caps imposed by the final rules remain in effect.

Consumer Financial Protection Regulations

The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created a more intense and complex environment for consumer finance regulation. The CFPB is authorized to engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. We expect increased oversight of financial services products by the CFPB, which are likely to affect our operations. The CFPB has significant authority to implement and enforce federal consumer finance laws, including the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Credit Billing Act and new requirements for financial services products provided for in the Dodd-Frank Act, as well as the authority to identify and prohibit unfair, deceptive or abusive acts and practices. The review of products and practices to prevent such acts and practices is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties.

In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief and/or monetary penalties. The Dodd-Frank Act and accompanying regulations, including regulations to be promulgated by the CFPB, are being phased in over time. While some regulations have been promulgated, many others have not yet been proposed or finalized. We cannot predict the terms of all of the final regulations, their intended consequences or how such regulations will affect us or our industry. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

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Moreover, retail activities of banks are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by banks are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to federal laws applicable to credit transactions, such as:

the federal Truth-In-Lending Act and Regulation Z issued by the Federal Reserve Board, governing disclosures of credit terms to consumer borrowers;

the Home Mortgage Disclosure Act and Regulation C issued by the Federal Reserve Board, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

the Equal Credit Opportunity Act and Regulation B issued by the Federal Reserve Board, prohibiting discrimination on the basis of various prohibited factors in extending credit;

the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;

the Service Members Civil Relief Act, applying to all debts incurred prior to commencement of active military service (including credit card and other open-ended debt) and limiting the amount of interest, including service and renewal charges and any other fees or charges (other than bona fide insurance) that is related to the obligation or liability; and

the guidance of the various federal agencies charged with the responsibility of implementing such federal laws.

Deposit operations also are subject to, among others:

the Truth in Savings Act and Regulation DD issued by the Federal Reserve Board, which require disclosure of deposit terms to consumers;

Regulation CC issued by the Federal Reserve Board, which relates to the availability of deposit funds to consumers;

the Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and

the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

The CFPB has finalized a number of significant rules which will impact nearly every aspect of the lifecycle of a residential mortgage. The final rules require banks to, among other things: (i) develop and implement procedures to ensure compliance with a new reasonable ability to repay test and identify whether a loan meets a new definition for a qualified mortgage, (ii) implement new or revised disclosures, policies and procedures for servicing mortgages including, but not limited to, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower's principal residence, (iii) comply with additional restrictions on mortgage loan originator compensation and (iv) comply with new disclosure requirements and standards for appraisals and escrow accounts maintained for higher priced mortgage loans. These new rules create operational and strategic challenges for us, as we are both a mortgage originator and a servicer. Forthcoming additional rulemaking affecting the residential mortgage business is also expected. These rules and any other new regulatory requirements promulgated by the CFPB and other federal or state regulators could require changes to our business, result in increased compliance costs and affect the streams of revenue of such business.

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In addition, 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.

Commercial Real Estate Lending

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

total reported loans for construction, land development and other land represent 100% or more of the institution's total capital, or

total commercial real estate loans represent 300% or more of the institution's total capital, and the outstanding balance of the institution's commercial real estate loan portfolio has increased by 50% or more during the prior 36 months.

In 2009, the federal banking regulators issued additional guidance on commercial real estate lending that emphasizes these considerations.

In addition, the Dodd-Frank Act contains provisions that may cause us to reduce the amount of our commercial real estate lending and increasing the cost of borrowing, including rules relating to risk retention of securitized assets. Section 941 of the Dodd-Frank Act requires, among other things, a loan originator or a securitizer of asset-backed securities to retain a percentage of the credit risk of securitized assets. The banking agencies have jointly issued a proposed rule to implement these requirements but have yet to issue final rules.

Transactions with Affiliates and Insiders

A variety of legal limitations restrict us from lending money to, borrowing money from, or in some cases transacting business with CBNA and CBPA. Among such restrictions to which we are subject are Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Board Regulation W. Section 23A places limits on the amount of covered transactions, which include loans or extensions of credit to, investments in or certain other transactions with, affiliates, as well as the amount of advances to third parties collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited to 10% of a bank's capital and surplus for any one affiliate and 20% for all affiliates. Furthermore, within the foregoing limitations as to amount, certain covered transactions must meet specified collateral requirements ranging from 100% to 130%. Also, a bank is prohibited from purchasing low-quality assets from any of its affiliates. Section 608 of the Dodd-Frank Act broadens the definition of covered transactions to include derivative transactions and the borrowing or lending of securities if the transaction will cause a bank to have credit exposure to an affiliate. The revised definition also includes the acceptance of debt obligations of an affiliate as

collateral for a loan or extension of credit to a third party. Furthermore, reverse repurchase transactions are viewed as extensions of credit (instead of asset purchases) and thus become subject to collateral requirements.

Section 23B prohibits an institution from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the bank, as those prevailing at

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the time for comparable transactions with non-affiliated companies. Except for limitations on low-quality asset purchases and transactions that are deemed to be unsafe or unsound, Regulation W generally excludes affiliated depository institutions from treatment as affiliates. Transactions between a bank and any of its subsidiaries that are engaged in certain financial activities may be subject to the affiliated transaction limits. The Federal Reserve Board also may designate banking subsidiaries as affiliates.

Pursuant to Federal Reserve Board Regulation O, we are also subject to quantitative restrictions on extensions of credit to executive officers, directors, principal stockholders and their related interests. In general, such extensions of credit (1) may not exceed certain dollar limitations, (2) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (3) must not involve more than the normal risk of repayment or present other unfavorable features. Certain extensions of credit also require the approval of our Board.

Anti-Money Laundering; USA PATRIOT Act; Office of Foreign Assets Control

Institutions must maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. We are prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence in dealings with foreign financial institutions and foreign customers. We also must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions. Recent laws provide law enforcement authorities with increased access to financial information maintained by banks. Anti-money laundering obligations have been substantially strengthened as a result of the USA PATRIOT Act, enacted in 2001 and renewed in 2006. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications.

The USA PATRIOT Act provides for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering. The statute also creates enhanced information collection tools and enforcement mechanics for the U.S. government, including: (1) requiring standards for verifying customer identification at account opening; (2) promulgating rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (3) requiring reports by non-financial trades and businesses filed with the Treasury's Financial Crimes Enforcement Network for transactions exceeding \$10,000; and (4) mandating the filing of suspicious activities reports if a bank believes a customer may be violating U.S. laws and regulations. The statute also requires enhanced due diligence requirements for financial institutions that administer, maintain or manage private bank accounts or correspondent accounts for non-U.S. persons.

The Federal Bureau of Investigation may send bank regulatory agencies lists of the names of persons suspected of involvement in terrorist activities. We can be requested to search our records for any relationships or transactions with persons on those lists and may be required to report any identified relationships or transactions. Furthermore, OFAC is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes, and routinely updates, lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, including the Specially Designated Nationals and Blocked Persons. If we find a name on any transaction, account or wire transfer that is on an OFAC list, we must freeze such account, file a suspicious activity report and notify the appropriate authorities.

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Other Regulatory Matters

We and our subsidiaries and affiliates are subject to numerous examinations by federal and state banking regulators, as well as the SEC, FINRA and various state insurance and securities regulators. In some cases, regulatory agencies may take supervisory actions that may not be publicly disclosed, which restrict or limit a financial institution. 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. We and our subsidiaries have from time to time received requests for information from regulatory authorities at the federal level or in various states, including state insurance commissions, state attorneys general, federal agencies or law enforcement authorities, securities regulators and other regulatory authorities, concerning their business practices. Such requests are considered incidental to the normal conduct of business.

In order to remedy certain weaknesses, including the weaknesses cited by the Federal Reserve Board in relation to our capital planning processes and the weaknesses we are working to remedy pursuant to the OCC and FDIC consent orders, and meet our significant regulatory and supervisory challenges, we believe 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 on our activities, supervisory actions or public enforcement actions.

Table of Contents**MANAGEMENT****Executive Officers and Directors**

The following table sets forth information regarding our executive officers and directors, as of the date of this prospectus:

Name	Age	Position
Bruce Van Saun	57	Chairman and Chief Executive Officer
Anthony Di Iorio	70	Director
Mark Casady	53	Director
William P. Hankowsky	63	Director
Howard W. Hanna III	67	Director
Charles J. (Bud) Koch	68	Director
Robert D. Matthews, Jr.	51	Director and Vice Chairman, Commercial Banking
Arthur F. Ryan	71	Lead Director
Shivan S. Subramaniam	65	Director
Wendy A. Watson	66	Director
Marita Zuraitis	53	Director
David Bowerman	48	Vice Chairman, Business Services
Brad L. Conner	52	Vice Chairman, Consumer Banking
John J. Fawcett	55	Chief Financial Officer
Ronald S. Ohsberg	50	Executive Vice President, Controller
Nancy L. Shanik	60	Group Executive Vice President, Chief Risk Officer

Directors

Bruce Van Saun joined our Board as Chairman and Chief Executive Officer in October 2013. From October 2009 through October 2013, Mr. Van Saun served as the RBS Group Finance Director and was a member of its board of directors. From 1997 to 2008, Mr. Van Saun held a number of senior positions with Bank of New York and later Bank of New York Mellon, including vice chairman and chief financial officer. Earlier in his career, he held senior positions with Deutsche Bank, Wasserstein Perella Group and Kidder Peabody & Co. In all, Mr. Van Saun has more than 30 years of financial services experience. Mr. Van Saun has served on the board of directors of our subsidiaries CBNA and CBPA since October 2013, and also served as a director on the boards of our affiliates, The Royal Bank of Scotland plc (from October 2009 to September 2013) and National Westminster Bank plc (from October 2009 to September 2013). In addition, Mr. Van Saun has served as a director on the franchise board of Lloyd's of London since September 2012. He has previously served on a number of boards in both the United Kingdom and the United States, including the boards of Direct Line Insurance Group plc (from April 2012 to October 2013), WorldPay (Ship Midco Limited) (from July 2011 to September 2013), ConvergEx Inc. (from May 2007 to October 2013), AbitibiBowater (Resolute Forest Products Inc.) Corporation (from June 2005 to April 2008), and Stride Rite Corporation (from June 1999 to December 2005). Mr. Van Saun is a member of the Financial Services Roundtable and The Clearing House supervisory board. Mr. Van Saun holds a B.S. in Business Administration from Bucknell University in 1979 and an M.B.A. in Finance and General Management from the University of North Carolina in 1983.

Mark Casady joined our Board in June 2014. Mr. Casady is chief executive officer and chairman of the board of directors of LPL Financial Holdings Inc. He joined LPL Financial in May 2002 as chief operating officer, became president in April 2003, and became chief executive officer and chairman in December 2005. Before joining LPL

Financial, Mr. Casady was managing director, mutual fund group for Deutsche Asset Management, Americas formerly Scudder Investments. He joined Scudder in 1994 and held roles as managing director Americas; head of global mutual fund group and head of

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defined contribution services. He was also a member of the Scudder, Stevens and Clark board of directors and management committee. Mr. Casady serves on the board of governors of FINRA and the board of directors of the Financial Services Roundtable. He has also served on the boards of our subsidiaries, CBNA and CBPA, since June 2014. Mr. Casady is former chairman of the Insured Retirement Institute and Eze Software Group; Mr. Casady received his B.S. from Indiana University and his M.B.A. from DePaul University.

Anthony Di Iorio has served on our Board since January 2014. Mr. Di Iorio began his career at Peat Marwick (now KPMG) where he worked in the firm's Financial Institutions Practice in New York and Chicago. After leaving Peat Marwick he worked for several leading financial institutions, including as Co-controller of Goldman Sachs, Chief Financial Officer of the Capital Markets business of NationsBank (now Bank of America), Executive Vice President of Paine Webber and CEO of Paine Webber International. He joined Deutsche Bank in Frankfurt in 2001 and later became the Bank's Chief Financial Officer and a member of its Board and Group Executive Committee. After retiring in 2008 he served as senior adviser to Ernst & Young working with the firm's financial services partners in the United Kingdom, Europe, the Middle East and Africa. Mr. Di Iorio served on the board of directors of the Royal Bank of Scotland Group plc from September 2011 to March 2014, and has served on the board of directors of our subsidiaries CBNA and CBPA since January 2014. Mr. Di Iorio holds a Bachelor of Business Administration from Iona College and an M.B.A. from Columbia University.

William P. Hankowsky has served on our Board since November 2006. Mr. Hankowsky is the chairman, president and chief executive officer of Liberty Property Trust. Mr. Hankowsky joined Liberty in January of 2001 as chief investment officer, and was responsible for refining the company's corporate strategy and investment process. In 2002, he was named president, and in 2003 was appointed chief executive officer and elected chairman of Liberty's board of trustees. Prior to joining Liberty, Mr. Hankowsky served for 11 years as president of the Philadelphia Industrial Development Corporation (PIDC), where he oversaw the city's economic development agency, managing 11 industrial parks, operating 20 loan programs, and coordinating major projects including a new arena, convention center, hotels and stadium. Prior to PIDC, Mr. Hankowsky was the city of Philadelphia's commerce director. Mr. Hankowsky currently serves on the boards of Aqua America Inc. (NYSE: WTR) since 2004, Interstate General Media (Philadelphia Inquirer, Daily News), Delaware River Waterfront Corporation, Greater Philadelphia Chamber of Commerce, the Kimmel Center for the Performing Arts, the Board of Governors of the National Association of Real Estate Investment Trusts, Philadelphia Convention and Visitors Bureau, Pennsylvania Academy of the Fine Arts, and Philadelphia Shipyard Development Corporation. Mr. Hankowsky has also served on the board of directors of our subsidiaries CBNA and CBPA since November 2006. Mr. Hankowsky received a Bachelor of Arts degree in economics from Brown University.

Howard W. (Hoddy) Hanna III has served on our Board since June 2009. Mr. Hanna is the chairman and chief executive officer of Howard Hanna Real Estate Services, Inc. Mr. Hanna became a sales associate in 1970 and the General Manager of Howard Hanna Real Estate Services in 1974. Mr. Hanna became Chief Operating Officer of Howard Hanna Real Estate Services and its parent company, Hanna Holdings, Inc. when the company incorporated in 1979 and then became President in 1983 and Chief Executive Officer in 1990. Howard Hanna Real Estate Services, Inc. offers a full range of mortgage origination products and services in certain geographies and, in this capacity, competes with us in Pennsylvania, Ohio and Michigan. Mr. Hanna currently serves as the Chair of the Children's Hospital of Pittsburgh Foundation Board of Trustees. He is a member of the Children's Hospital of Pittsburgh of UPMC Board of Trustees and he serves on the Hospital Board's Finance and Investment Committee. Mr. Hanna also serves on the boards of John Carroll University, LaRoche College, the Katz Graduate School of Business Board of Visitors, University of Pittsburgh, the Diocese of Pittsburgh Finance Council and the YMCA of Greater Pittsburgh. From 2007 to 2012, Mr. Hanna served on the

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board of directors of the Federal Reserve Bank of Cleveland's Pittsburgh office. Mr. Hanna has also served on the board of directors of our subsidiaries CBNA and CBPA since June 2009. Mr. Hanna received a Bachelor of Science degree from John Carroll University in 1969.

Charles (Bud) Koch has served on our Board since September 2004. He also serves on the board of directors of our subsidiaries CBNA and CBPA. Mr. Koch is the retired Chairman of the Board and Chief Executive Officer of Charter One Financial and its subsidiary Charter One Bank. He served as Charter One's Chief Executive Officer from 1987 to 2004 and as its Chairman from 1995 to 2004, when the bank was sold to RBS. Mr. Koch was a director of RBS and its subsidiaries Royal Bank of Scotland plc and National Westminster Bank from 2004 until February 2009. Mr. Koch has been a director of Assurant Inc. (AIZ) since August 2005, and he currently serves as Chair of the Assurant Finance and Investment Committee, and a member of its Compensation Committee. Mr. Koch has been a director of the Federal Home Loan Bank of Cincinnati since 1990. He was Chairman of the Board of the FHLB of Cincinnati from 2005 to 2006, and he currently serves on its Risk Committee, its Compensation Committee and its Nomination and Governance Committee. His long tenure on the FHLB of Cincinnati Board has been interrupted twice, for a total of 3 years, due to term limitations. Mr. Koch serves as a trustee of Case Western Reserve University, and he served as its Chairman of the Board from 2008 to 2012. He is also a past Chairman of the Board of John Carroll University. Mr. Koch graduated from Lehigh University with a B.S. in Industrial Engineering and earned a MBA from Loyola College in Baltimore, Maryland.

Robert D. Matthews, Jr. has served on our Board since July 2009. Mr. Matthews is Vice Chairman of CFG, with specific responsibility for the Commercial Banking business lines including Corporate Banking, Commercial Finance, Corporate Finance and Capital Markets and Treasury Solutions. Mr. Matthews also oversees the State Presidents who represent our overall franchise in our 12 markets under the Citizens Bank and Charter One brands and oversees both our Community Reinvestment Act and Public and Government Affairs functions. Prior to assuming his current position in 2009, Mr. Matthews was a member of the Executive Leadership Group at Citizens Bank and was responsible for Commercial Markets. Mr. Matthews joined our leadership team in 2007 from Citigroup Inc., where he was Executive Vice President and Head of U.S. Commercial and Middle Market Banking. Mr. Matthews has served on the board of directors of the Private Export Funding Corporation since 2011 and is a member of that board's Audit and Risk Committees. Mr. Matthews has also served on the board of directors of our subsidiaries CBNA and CBPA since July 2009. Mr. Matthews received a Bachelor's degree in Economics from Harvard College in 1985 with an emphasis on labor relations and bargaining behavior.

Arthur F. Ryan has served on our Board since April 2009. Mr. Ryan is the former Chairman, Chief Executive Officer and President of Prudential Financial, Inc., one of the largest diversified financial institutions in the world. After 13 years at Prudential, he retired as CEO and President in 2007 and he retired as Chairman in May 2008. Prior to joining Prudential in 1994, Mr. Ryan worked at Chase Manhattan Bank for 22 years. He ran Chase Manhattan's worldwide retail bank between 1984 and 1990, and he became President and Chief Operating Officer in 1990. Mr. Ryan has served as a non-executive director of Regeneron Pharmaceuticals, Inc. since January 2003. Mr. Ryan has also served on the board of directors of our subsidiaries CBNA and CBPA since April 2009.

Shivan S. Subramaniam has served on our Board since January 2005. Mr. Subramaniam has been the Chairman and Chief Executive Officer of Factory Mutual Insurance Company since 2002 and President and Chief Executive Officer since 1999. Mr. Subramaniam is responsible for strategic and operational direction at FM Global, which is one of the world's leading commercial and industrial property insurers. Previously, Mr. Subramaniam served as Chairman and Chief Executive Officer at Allendale Insurance, a predecessor company of FM Global. Elected president of Allendale in 1992, he held a number of senior-level positions in finance and management after joining the company in 1974.

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Mr. Subramaniam's career spans nearly 40 years in the insurance industry. Mr. Subramaniam has served on the board of directors of Lifespan Corporation since December 2006, and is a trustee of Bryant University and a director of the Rhode Island Public Expenditure Council (RIPEC). Mr. Subramaniam has also served on the board of directors of our subsidiaries CBNA and CBPA since January 2005. Mr. Subramaniam received his bachelor's degree in mechanical engineering from the Birla Institute of Technology, Pilani, India, and has since earned two master's degrees—one in operations research from the Polytechnic at New York University, and another in management from the Sloan School of Management at the Massachusetts Institute of Technology.

Wendy A. Watson has served on our Board since October 2010. Until her retirement in 2009, Ms. Watson was the Executive Vice President, Global Services for State Street Bank & Trust Company. Ms. Watson joined State Street Bank & Trust Company in 2000. Previously, Ms. Watson was with the Canadian Imperial Bank of Commerce where she served as head of the Global Private Banking and Trust business and President & CEO CIBC Finance. She has also served as Chief Information Officer and as head of Internal Audit for Confederation Life Insurance Company in Toronto. Ms. Watson began her career in the audit department of Sun Life Assurance Company in Canada where she rose to become the No. 2 person in the company's 70-person global audit function. Ms. Watson has served as a director of CMA Holdings Canada since 2010, of DAS Canada Insurance Company (a subsidiary of Munich Re) since 2010, and of the Independent Order of the Foresters Live Insurance Company since 2013. Ms. Watson's years of board service also include Chair of the Board of two of State Street Bank's multi-national entities—State Street Syntel Private Ltd (India) and State Street Syntel Services Ltd (Mauritius). Ms. Watson currently serves on the Community Service Committee of Boston Children's Hospital and the Advisory Board of Crittenton Women's Union. Ms. Watson has also served on the board of directors of our subsidiaries CBNA and CBPA since October 2010. In addition to her corporate directorship roles, Ms. Watson is also currently a member of the Editorial Board of the *Intelligent Outsourcer* Journal and has served as a member of the board of directors of the Women's College Hospital and the Women's College Hospital Foundation in Toronto. Ms. Watson is a magna cum laude graduate of McGill University in Montreal with a Bachelor of Commerce degree with majors in Accounting and Law. Ms. Watson holds a Professional Director Certification from the American College of Corporate Directors, a public company director education and credentialing organization. She is also a CPA and Certified Fraud Examiner.

Marita Zuraitis has served on our Board since May 2011. Ms. Zuraitis is Director, President and Chief Executive Officer of the Horace Mann Educators Corporation. Prior to joining Horace Mann in May 2013, Ms. Zuraitis served as Executive Vice President and a member of the Executive Leadership Team for The Hanover Insurance Group, Inc. While at The Hanover Insurance Group, Ms. Zuraitis served as President, Property and Casualty Companies, responsible for the personal and commercial lines operation at Citizens Insurance Company of America, The Hanover Insurance Company and their affiliates, a position she held since 2004. Prior to 2004, Ms. Zuraitis was with The St. Paul Travelers Companies for six years, where she achieved the position of President and Chief Executive Officer, Commercial Lines. She also held a number of increasingly responsible underwriting and field management positions with United States Fidelity and Guaranty Company and Aetna Life and Casualty. Ms. Zuraitis has 30 years of experience in the insurance industry. Ms. Zuraitis has served as a member of the board of trustees for the American Institute for Chartered Property and Casualty Underwriters (The Institutes) since June 2009. Ms. Zuraitis has also served on the board of directors of our subsidiaries CBNA and CBPA since May 2011. She is also a past Chairperson of the board of trustees for NCCI Holdings, Inc., a provider of workers' compensation data analytics based in Boca Raton, Florida, and a past member of the board of Worcester Academy in Worcester, Massachusetts. A graduate of Fairfield University in Fairfield, Connecticut, Ms. Zuraitis completed the Advanced Executive Education Program at the Wharton School of Business and the Program on Negotiations at Harvard University.

Table of Contents**Executive Officers**

David Bowerman is Vice Chairman, Head of Citizens Business Services with responsibility for Operations, Technology, Property, Procurement and Security across Citizens entities in the Americas. Prior to assuming his current position in 2008, Mr. Bowerman was Managing Director, UK and European Operations, with RBS plc, with responsibility for eight Business Services operations and a staff of 21,000 supporting RBS's income-generating divisions. Mr. Bowerman joined NatWest Bank in 1982. During his years with RBS, he has undertaken a range of retail and corporate roles. He gained extensive experience and built a wide portfolio of successes in leading and implementing significant cultural change and organizational strategies. Mr. Bowerman is a fellow of the Chartered Institute of Bankers in Scotland. He was educated in England and attended Harvard Business School's Advanced Management Program. Mr. Bowerman has served on the board of the Institute for the Study and Practice of Nonviolence, in Providence, R.I., since 2011.

Brad L. Conner is Vice Chairman of our Consumer Banking Division. He is responsible for Retail Banking, Business Banking, Wealth Management, Home Lending Solutions, Auto Finance and Education Finance, as well as the Consumer Phone Bank and online channels. Before joining CFG in 2008, Mr. Conner was President of JP Morgan Chase & Co.'s Home Equity and Mortgage Home Loan Direct business. He previously oversaw the combined home equity business of Chase and Bank One after the companies merged in 2004, and served as CEO of Chase's Education Finance businesses. In his 12 years at Bank One/Chase, Mr. Conner played a key leadership role in the growth and evolution of the company's mortgage and home equity businesses. Mr. Conner served as a director for the Rhode Island Public Expenditure Council from 2010 through 2012. Since 2009, he has served on the board of trustees of the Dave Thomas Foundation for Adoption, where he has served as treasurer since 2011, and he currently serves on its audit committee and its Committee for Institutional Advancement. He has also been a member of the Consumer Bankers Association board of directors since 2011. Mr. Conner has a B.A. and M.B.A. from the University of Arkansas.

John J. Fawcett is our Chief Financial Officer. Mr. Fawcett's functional responsibilities include financial management functions including controllers, financial reporting, planning and analysis, tax management, treasury, corporate strategy and investor relations. In January 2008, Mr. Fawcett joined CFG from Citigroup Inc., where he held various roles over the course of a 20-year career including Chief Financial Officer for Trading and Capital Markets; Head of Planning and Analysis for the Global Corporate and Investment Bank; and most recently Chief Financial Officer for the Global Transactions Services Business. Mr. Fawcett earned a B.S. in accounting and an M.B.A. in finance from St. John's University.

Ronald S. Ohsberg is our Corporate Controller. He is responsible for financial reporting, accounting policy, accounting operations, treasury operations and Finance Division risk and control. In 2004, Mr. Ohsberg joined CFG after working at FleetBoston Financial, where over a 12-year period he held various managerial roles, most recently as Director of Accounting. Prior to that he was an audit manager with KPMG. Mr. Ohsberg earned B.S. degrees in accounting and finance and an M.B.A. from the University of Rhode Island. He also is a CPA.

Nancy L. Shanik is our Chief Risk Officer. She is responsible for overseeing our risk management organization, including its vision, strategy development and execution and day-to-day operations. She is a member of the RBS Americas Risk Committee and the RBS Group Risk Board. Ms. Shanik serves on the board of the Kleinfelder Group and she also chairs the audit committee. Ms. Shanik joined CFG in 2010 from Alvarez & Marsal in New York, where she had been a managing director since 2009. Prior to this, Ms. Shanik spent 31 years with Citigroup Inc. in positions of increasing responsibility. She was both a Managing Director and Senior Credit Officer and served as the Chief Credit Officer of Citigroup Inc.'s Global Commercial Markets business. She has developed broad-based and hands-on leadership, management and restructuring experience throughout her diverse career. Ms. Shanik

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earned an M.B.A. from Tulane University Graduate School of Business with concentrations in corporate finance and accounting, and a bachelor's degree cum laude in marketing and communication theory from the University of Vermont. She also attended the Stanford University Executive Program.

Board Composition

Following completion of this offering, our Board will consist of _____ directors, Bruce Van Saun, Mark Casady, Anthony Di Iorio, William P. Hankowsky, Howard W. Hanna III, Charles J. (Bud) Koch, Robert D. Matthews, Jr., Arthur F. Ryan, Shivan S. Subramaniam, Wendy A. Watson and Marita Zuraitis. As part of our separation from the RBS Group, we intend to enter into the Separation Agreement, which will provide the RBS Group with certain rights relating to the composition of our Board. See Our Relationship with the RBS Group and Certain Other Related Party Transactions Relationship with the RBS Group Separation and Stockholder Agreement.

Mr. Van Saun serves as our Chairman of the Board and Chief Executive Officer. When the Chairman of the Board is also the Chief Executive Officer, our Corporate Governance Guidelines provide for the election of one of our independent directors to serve as Lead Director. Mr. Ryan currently serves as our Lead Director, and is responsible for serving as liaison between the Chairman and the independent directors, approving meeting agendas and schedules for our Board and presiding at executive sessions of the independent directors and any other board meetings at which the Chairman is not present, among other responsibilities.

We have determined that each of _____, _____, _____, _____ and _____ is an independent director within the meaning of the applicable rules of the SEC and NYSE. In addition, each of _____, _____ and _____ is also an independent director under Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act) for the purpose of audit committee membership, and each of _____, _____ and _____ is also an independent director under Rule 10C-1 of the Exchange Act for the purpose of compensation committee membership. Our Board has determined that _____ is a financial expert within the meaning of the applicable rules of the SEC and NYSE.

Background and Experience of Directors

When considering whether directors and nominees have the experience, qualifications, attributes or skills, taken as a whole, to enable our Board to satisfy its oversight responsibilities effectively in light of our business and structure, the Board focuses primarily on each person's background and experience as reflected in the information discussed in each of the directors' individual biographies set forth above. We believe that our directors provide an appropriate mix of experience and skills relevant to the size and nature of our business. In particular, the members of our Board considered the following important characteristics, among others:

Mr. Van Saun we considered his experience as an executive in the financial services industry, his extensive financial background and his experience serving on the boards of other public companies, including RBS. Furthermore, we also considered how his additional role as our Chief Executive Officer would bring management's perspective to Board deliberations and provide valuable information about the status of our day-to-day operations.

Mr. Casady we considered his experience as an executive in the financial services industry, including his experience as chief executive officer of LPL Financial Holdings Inc., and his experience serving on the boards of directors of the Insured Retirement Institute, Eze Software Group and the Financial Services

Roundtable and the board of governors of FINRA.

Mr. Di Iorio we considered his experience as an executive in the financial services industry, including his experience as chief financial officer of Deutsche Bank, his extensive financial background and his experience serving on the boards of other public companies, including RBS.

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Mr. Hankowsky we considered his extensive business and management expertise, including his experience as chief executive officer of Liberty Property Trust, his service as president of PIDC, his experience serving on the boards of numerous public companies and non-profit entities and his experience in the real estate sector.

Mr. Hanna we considered his extensive business and management expertise, his experience serving on the boards of numerous non-profit entities and the board of directors of the Federal Reserve Bank of Cleveland's Pittsburgh office and his experience in the real estate and mortgage origination sectors.

Mr. Koch we considered his experience as an executive in the financial services industry, including his experience as chief executive officer of Charter One Financial, his experience serving on the boards of other public companies and the FHLB of Cincinnati and his experience in the retail banking sector.

Mr. Matthews we considered his experience as an executive in the financial services industry and his experience serving on the board of the Private Export Funding Corporation. Furthermore, we also considered how his additional role as Vice Chairman of CFG overseeing the Commercial Banking business lines, among other areas, as well as his experience as Head of U.S. Commercial and Middle Market Banking at Citigroup Inc. would bring management's perspective and industry insight to Board deliberations and provide valuable information about the status of our day-to-day operations.

Mr. Ryan we considered his experience as an executive in the financial services industry, including his experience as chief executive officer of Prudential Financial, Inc., his experience serving on the boards of other public companies and his experience in the retail banking sector.

Mr. Subramaniam we considered his extensive business and management expertise, including his experience as chief executive officer of FM Global, and his experience serving on the boards of directors of FM Global and Lifespan Corporation and the board of trustees of Bryant University.

Ms. Watson we considered her experience as an executive in the financial services industry, her extensive financial background and her experience serving on the boards of other financial services companies.

Ms. Zuraitis we considered her experience as an executive in the financial services industry, her experience serving on the boards of Horace Mann Educators Corporation and NCCI Holdings, Inc. and her experience in the insurance sector.

Board Committees

Upon completion of this offering, the standing committees of our Board will consist of the following committees:

The Audit Committee will consist of Ms. Watson, Mr. Di Iorio, Mr. Hankowsky, Mr. Hanna and Mr. Koch, with Ms. Watson serving as chair, and be comprised entirely of independent directors. The Audit Committee operates pursuant to a charter approved by the Board. The Audit Committee reviews and, as it deems appropriate, recommends to our Board our internal accounting and financial controls and the accounting principles and auditing practices and

procedures to be employed in preparation and review of our financial statements. The Audit Committee is also directly responsible for the engagement and oversight of independent public auditors.

The Compensation Committee will consist of Mr. Ryan, Mr. Hankowsky and Ms. Watson, with Mr. Ryan serving as chair, and be comprised entirely of independent directors. The Compensation

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Committee operates pursuant to a charter approved by the Board. The Compensation Committee is responsible for, among other things, reviewing and approving our overall compensation philosophy, determining the compensation of our executive officers and directors, administering our incentive and equity-based compensation plans, and succession planning.

The Nominating and Corporate Governance Committee will consist of Mr. Subramaniam, Mr. Di Iorio and Mr. Ryan, with Mr. Subramaniam serving as chair, and be comprised entirely of independent directors. The Nominating and Corporate Governance Committee operates pursuant to a charter approved by the Board. The Nominating and Corporate Governance Committee reviews and, as it deems appropriate, recommends to the Board policies and procedures relating to director and board committee nominations and corporate governance policies.

The Risk Committee will consist of Mr. Koch, Mr. Casady, Mr. Subramaniam, Ms. Watson and Ms. Zuraitis, with Mr. Koch serving as chair. The Risk Committee operates pursuant to a charter approved by the Board. The Risk Committee reviews and, as it deems appropriate, recommends to the Board the design and implementation of our risk strategy and policy, risk appetite framework and specific risk appetites and limits. The Risk Committee also oversees our risk management function and reviews the due diligence of any proposed strategic transaction.

Compensation Committee Interlocks and Insider Participation

During 2014, no member of our Compensation Committee has been one of our officers or employees, and none has had any relationships with our company of the type that is required to be disclosed under Item 404 of Regulation S-K. None of our executive officers serves or has served as a member of our Board, Compensation Committee or other board committee performing equivalent functions of any entity that has one or more executive officers serving as one of our directors or on our Compensation Committee.

Corporate Governance Guidelines and Code of Business Conduct and Ethics

Our Board has adopted Corporate Governance Guidelines, which set forth a flexible framework within which our Board, assisted by Board committees, directs our affairs. The Guidelines address, among other things, the composition and functions of the Board, director independence, compensation of directors, management succession and review, Board committees and selection of new directors.

Our Board has also adopted a Code of Business Conduct and Ethics, which sets forth key guiding principles concerning ethical conduct and is applicable to all of our directors, officers and employees. The Code addresses, among other things, conflicts of interest, protection of confidential information and compliance with laws, rules and regulations, and describes the process by which any concerns about violations should be reported.

The Corporate Governance Guidelines and the Code of Business Conduct Ethics will be available on our corporate website. We expect that any amendments to these codes, or any waivers of their requirements, will be disclosed on our website.

Table of Contents**COMPENSATION DISCUSSION AND ANALYSIS****Introduction**

This Compensation Discussion & Analysis, or CD&A, focuses on our executive compensation philosophy and program. In particular, the CD&A and the compensation tables that follow focus on the compensation paid to our named executive officers, or NEOs, with respect to fiscal year 2013. Our NEOs are executive officers who served in the roles of our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, during 2013 as well as our three next most highly compensated executive officers during 2013, all of whom are named below:

Name	Position
Bruce Van Saun	Chairman and Chief Executive Officer
John J. Fawcett	Chief Financial Officer
Robert D. Matthews, Jr.	Head of Commercial Banking
Brad L. Conner	Head of Consumer Banking
Nancy L. Shanik	Chief Risk Officer

Name of Former Executive	Position
Ellen Alemany	Former Chairman and Chief Executive Officer

Background

Our Compensation Advisory Committee, or Compensation Committee, was formed in 2011. Since that time, among other duties, our Compensation Committee has been involved with the evaluation of the performance of our executive team, has provided oversight with respect to our executive compensation decisions, and has been actively engaged with senior management in talent management and management succession planning.

As a wholly owned subsidiary of RBS prior to this offering, the compensation packages of our NEOs, which are guided by U.S. market data, have been governed by the compensation philosophy and objectives of RBS, and have been subject to approval by the RBS Performance and Remuneration Committee of the board of directors of RBS, or RemCo, and compliance with all applicable laws and regulations. See [Applicability of UK and European Remuneration Rules](#) below for further details. This CD&A describes compensation programs and decisions as they relate to our NEOs.

Compensation Philosophy & Objectives

The fundamental principles that RBS follows in designing and implementing compensation programs for our NEOs are to:

attract, retain, motivate and reward high-caliber executives to deliver long-term business performance within acceptable risk parameters;

provide clear alignment between annual and long-term compensation for executives and RBS/divisional strategic plans;

support a culture where employees recognize the importance of serving customers well and are rewarded for superior individual performance; and

encourage the creation of value over the long-term and align the rewards of the participants with the returns to shareholders.

Table of Contents**Executive Compensation Procedures*****Role of RemCo***

Prior to this offering RemCo has been responsible for the approval, evaluation and oversight of our executive officer compensation and has approved base salaries, equity grants and annual bonus awards for our NEOs, in each case, following consideration by our Compensation Committee. Our CEO works with our Compensation Committee to formulate compensation recommendations to be submitted to RemCo for all NEOs other than himself. None of our NEOs attend the RemCo meeting at which it is determined whether such recommendations should be approved. Following this offering, while we remain subject to UK and European remuneration regulations, RemCo's role with respect to our executive compensation will be more limited and will be to work with our Compensation Committee to ensure compliance with those regulations. For further details, see [Applicability of UK and European Remuneration Rules](#) below.

Role of Compensation Committee

Subject to our formal analysis and confirmation prior to the completion of this offering, our Compensation Committee is composed of independent directors for purposes of the New York Stock Exchange listing rules, Section 16 of the Exchange Act and Section 162(m) of the Internal Revenue Code of 1986, as amended (together with applicable regulations, [Section 162\(m\)](#)). Our Compensation Committee's role with respect to the compensation of our NEOs has been largely advisory as executive compensation decisions are formally approved by RemCo, as described above. Historically, including during 2013, our CEO and Head of Human Resources presented executive compensation proposals to our Compensation Committee for its review and feedback prior to submission to RemCo for approval, but our Compensation Committee did not formally approve compensation decisions relating to our NEOs.

Following this offering, our Compensation Committee will continue to be composed of independent directors and will be responsible for establishing, implementing and monitoring the administration of our executive compensation plans and programs and for approving our executive officer compensation. RemCo will work with our Compensation Committee to ensure compliance with UK and European remuneration regulations while those regulations apply to us. For further details, see [Applicability of UK and European Remuneration Rules](#) below. For more on our Compensation Committee's responsibilities, see [Management Board Committees](#) above. Our Compensation Committee is expected to have the ability to delegate its authority to subcommittees when it deems it appropriate and in our shareholders' best interests. Under its charter, our Compensation Committee is also expected to have ability to delegate to one or more of our officers the authority to make equity grants to employees other than our executive officers in accordance with, and under our, proposed omnibus incentive plan. See [Our Anticipated NEO Compensation Program Following the Offering Omnibus Incentive Plan](#) for details.

Role of Compensation Consultants***PricewaterhouseCoopers LLP***

The advisers to RemCo are appointed independently by RemCo, which reviews its selection of advisers annually. The advisers are instructed by, and report directly to, RemCo. The Chair of RemCo approves the fees for the advisers. PricewaterhouseCoopers LLP, or PwC, was appointed as RemCo's remuneration adviser on September 14, 2010, and PwC's appointment is reconfirmed by RemCo annually, including most recently in July 2013, as part of an annual review of the quality of advice received and fees charged. PwC is a signatory to the voluntary code of conduct in relation to remuneration consulting in the UK. PwC also provides professional services in the ordinary course of

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business, including assurance, advisory, tax and legal advice to subsidiaries of RBS. During 2013, PwC attended each of the nine scheduled RemCo meetings and, with respect to our executive compensation, was involved in reviewing recommendations on our executive compensation issues.

McLagan

Historically, including for 2013, our management has retained McLagan to provide peer survey data that is referred to in making executive compensation recommendations for the upcoming year. In October 2012, McLagan provided survey data regarding the compensation of our executives relative to executives in similar roles at the following companies, as applicable: Bank of America Corp.; BMO Financial Group; Citigroup Inc.; Fifth Third Bancorp; First Niagara Financial Group, Inc.; HSBC Holdings plc; Huntington Bancshares, Inc.; JP Morgan Chase & Co.; KeyCorp; M&T Bank Corp.; PNC Financial Services Group, Inc.; SunTrust Banks, Inc.; The Toronto-Dominion Bank; Webster Financial Corp.; and Wells Fargo & Company. This information was referred to by management in making compensation recommendations for our NEOs for 2013, other than for Mr. Van Saun, who was not our employee at the time. The relevant companies were selected because they are among the companies with which we compete for talent.

In preparing executive compensation recommendations that are ultimately submitted to RemCo, our management refers to the survey data provided by McLagan as a reference point for pay levels and practices and considers such data relevant to, but not determinative of, their consideration of overall executive compensation matters. Going forward, we anticipate that McLagan will continue to provide us with survey data and that Compensation Advisory Partners (discussed below) will also be involved in selecting the companies that should be included in that survey data. Survey data gathered by McLagan is not provided directly to RemCo or our Compensation Committee but is referred to by management when formulating executive compensation recommendations that are presented to our Compensation Committee for feedback and ultimately to RemCo for approval.

Frederic W. Cook & Co., Inc.

In anticipation of our transition to public company status, in December 2013, our management engaged Frederic W. Cook & Co., Inc., or Cook, to advise on public company director and executive compensation design. While our Compensation Committee was conducting a search for its own independent compensation consultant, Cook was engaged to provide us information regarding the executive compensation programs of our public company peers and to provide advice regarding compensation considerations relevant to public companies, such as Section 162(m). We did not engage Cook for any additional services outside of executive and director compensation consulting.

Compensation Advisory Partners

In March 2014, our Compensation Committee retained Compensation Advisory Partners, LLC, or CAP, to provide guidance and advice going forward on compensation-related matters, including changes to our executive and director compensation structure following this offering. CAP was directly selected and retained by our Compensation Committee to provide a broad set of services pertaining to the compensation of our executives and our directors. We do not engage CAP for any additional services outside of executive and director compensation consulting. In connection with CAP's retention, our Compensation Committee conducted an assessment of potential conflicts of interest of CAP, and no conflicts of interest relating to its services were identified.

Role of Management

Our CEO annually reviews the performance of each of the other NEOs. Following this review, the CEO, together with our Head of Human Resources, makes compensation recommendations for the

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NEOs other than himself, including recommendations for salary adjustments, annual incentives and long-term equity-based incentive awards, to our Compensation Committee for review and feedback. Our CEO then submits these proposals to RemCo for approval. During 2013, RemCo also considered at its meetings the views of the RBS Chairman, Group Chief Executive, RBS Finance Director, RBS Human Resources Director, RBS Head of Reward, RBS Secretary and RBS Chief Risk Officer with respect to executive compensation.

Going forward, we expect that our CEO will similarly be engaged in compensation decisions relating to the other NEOs. Our CEO does not and will not have any role in determining his own compensation.

Components of Our Executive Compensation Program and Analysis

The following table presents the principal elements of the compensation program that applied to our NEOs for the 2013 performance year and the objective of each element:

Element of Pay	Objective	Operation
<i>Base Salary</i>	To attract and retain employees by being competitive in the specific market in which each individual employee works.	Base salaries are reviewed annually and should reflect the talents, skills and competencies of the individual. Salaries should be sufficient so that inappropriate risk-taking is not encouraged.
<i>Annual Incentives</i>	To support a culture where employees recognize the importance of serving customers well and are rewarded for superior individual performance.	The annual incentive pool is based on RemCo's review and holistic assessment of our performance against a number of financial and operational performance-related guideposts, including customer, financial, risk and people (such as employee engagement and leadership) measures. Allocation from the pool depends on divisional, functional and individual performance. Individual performance assessment is supported by a structured performance management framework.

Under the RBS-wide deferral arrangements, a significant proportion of annual incentive awards for our more senior and higher-paid employees are deferred (part in RBS bonds (with interest in certain prior years) and part as a right to receive RBS shares) over a three-year period. Deferred awards are subject to clawback, which for 2014 awards includes post-vesting clawback, as discussed in [Clawback Policy](#) below. For individuals who are considered [Code Staff](#) under UK rules, which for 2013 included Mr. Van Saun and Mss. Shanik and Alemany, at least 50% of any annual incentive must be delivered in the form of shares or share-linked instruments and be subject to an additional six-month retention period post-vesting. See [Applicability of UK and European Remuneration Rules](#) below for details.

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Element of Pay	Objective	Operation
<i>Long-Term Incentive Plan</i>	To encourage the creation of value over the long term and to align the rewards of the participants with the returns to shareholders.	<p>Deferred awards in the form of the right to receive RBS shares held by our employees are expected to be converted into equity awards of our stock upon completion of this offering. For details, see Our Compensation in Connection with this Offering Conversion of Outstanding RBS Deferred Share Awards, LTIP Awards and Special IPO Awards below.</p> <p>RBS provides certain employees in senior roles (including our NEOs) with long-term incentive awards.</p> <p>Awards for our NEOs have historically been structured as performance-vesting share units. Vesting after a three-year period is based partly on RBS, divisional and/or functional performance (except for our CEO, for whom vesting is based solely on RBS performance). Vesting levels may vary between 0 and 100%.</p> <p>Awards are subject to clawback, which for 2014 awards includes post-vesting clawback, as discussed in Clawback Policy below. For individuals who are considered Code Staff, which for 2013 included Mr. Van Saun and Mss. Shanik and Alemany, these awards (including Special IPO Awards described below) are subject to a six-month retention period post-vesting. See Applicability of UK and European Remuneration Rules below for details.</p> <p>In anticipation of this offering, our employees, including our NEOs, received special equity awards in lieu of traditional performance-vesting share units, the terms of which are described in Our Compensation in Connection with This Offering Special IPO Awards Granted in 2014 below.</p> <p>Long-term incentive awards, including special equity awards relating to this offering, held by our employees are expected to be converted into equity awards of our stock upon completion of this offering. For details, see Our Compensation in Connection with this Offering Conversion of Outstanding RBS Deferred Share Awards, LTIP Awards and Special IPO Awards below.</p>

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Element of Pay	Objective	Operation
<i>Perquisites and Other Benefits</i>	To give employees an opportunity to provide for their retirement and address certain other specific needs.	Our NEOs are generally eligible to participate in our company-sponsored benefit programs, including our broad-based 401(k) plan, offered on the same terms and conditions as those made generally available to our employees.

In addition, we provide certain personal benefits to certain of the NEOs for competitive reasons. For additional details, see the All Other Compensation column of the 2013 Summary Compensation Table below, along with accompanying footnotes.

Base Salary

Although we have no written policies or guidelines for setting or adjusting the base salaries of our NEOs, our NEOs salaries are intended to be competitive with those of our peers and are subject to change if, among other reasons, the executive's experience or responsibilities change materially or there are changes in the competitive market environment. Mr. Van Saun's base salary was increased, effective April 1, 2014, to \$1,487,000 to remain competitive. For the amounts of our NEOs' base salaries, see the Salary column of the 2013 Summary Compensation Table below, along with accompanying footnotes.

Annual Incentive Awards***Determination of Our CEO's Annual Incentive Award***

Although our CEO had a strong year in terms of delivering on his objectives, he did not receive an annual incentive award for the 2013 performance year in light of the overall challenges faced by RBS during that period.

Determination of Annual Bonus Pool Under AIP

For the 2013 performance year, as in past years, our NEOs (other than our CEO) participated in our discretionary Annual Incentive Plan, or AIP. The aggregate discretionary AIP annual bonus pool was approved by RemCo after a collaborative holistic review by RBS and us of our performance during 2013. As part of that assessment, RemCo reviewed our performance against a number of financial and operational performance-related guideposts, including, among other things, our operating income, cost-to-income ratio, return on equity and people and customer metrics, and such other objective and subjective criteria as deemed appropriate by RemCo. No specific weight was assigned to any particular performance factor or guidepost and the aggregate amount of the bonus pool was not determined formulaically.

Determining Other NEOs' Annual Incentive Awards (Other than the CEO)

There are no target award amounts established under the AIP for our NEOs or other participants. Rather, proposed incentive award amounts, or AIP awards, submitted to RemCo for review and approval for our NEOs are determined at year-end by the CEO, after taking into account the funding of the relative bonus pool and qualitative assessment of individual performance.

All employees, including our NEOs, participate in a robust performance management process whereby managers and employees develop a set of mutually agreed upon performance objectives during the first quarter of each performance year. All employees are reviewed annually as part of the

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performance management process and are rated between 1 (low) and 5 (high), which is a consideration in determining annual incentive awards.

There is no particular weight assigned to performance-related factors; rather, our CEO may evaluate performance as deemed appropriate in his discretion. For the 2013 performance year, our CEO made the following determinations regarding each NEO's individual performance, which were taken into account by RemCo in ultimately approving our NEOs' individual annual incentive awards:

Mr. Fawcett. Mr. Fawcett was principally responsible for the successful execution of three planned capital conversion transactions that were integral in efforts to realign our capital position with that of our regional bank peers. He was a key contributor to strategic initiatives (including public offering readiness planning, Project Top (a revenue generation and expense review project) and the sale of our Chicago branches to US Bancorp).

Mr. Matthews. Under Mr. Matthews' leadership, strong strategic progress was made in the commercial business, which delivered good current financial performance and is positioned for further growth. Key initiatives include the expansion of the capital markets business and industry coverage groups. Mr. Matthews was instrumental in increasing customer satisfaction and loyalty and effectively controlling risk, as evidenced by strong audit and risk ratings. With Mr. Matthews' oversight and guidance, the commercial business increased its market share during 2013 despite increasing competitive pressures.

Mr. Conner. Mr. Conner continued to build a strong foundation for the consumer business. To that end, Mr. Conner has made good progress in building a customer-centric organization with a focus on implementing measures to ensure progress, and aligning the organization with such measures. He has assembled a talented team who are focused on growth.

Ms. Shanik. Ms. Shanik was instrumental in designing and implementing a framework for effective risk management, including development of a new risk governance committee structure, creation of divisional policy ownership and adoption of key changes relating to our risk operating model.

Mandatory Deferral of 2013 Annual Incentive Awards

The time and the form of payment for AIP awards are determined by RemCo. For the 2013 performance year, AIP awards were granted partially in the form of a deferred bond with no interest and partially as a right to receive RBS shares, or deferred share awards, with such awards being granted under, and subject to the rules of, the RBS 2010 Deferral Plan, or the RBS Deferral Plan.

For the 2013 performance year, all employees were subject to the same form and timing of payment for AIP awards, including our NEOs. Up to \$3,129 was paid in March 2014, the next \$35,986 was awarded in the form of a deferred bond with no interest to be paid in June 2014, and amounts above \$39,115 were awarded as deferred share awards with a grant date fair market value equal to the remaining value of the award. The portion of the award granted as deferred share awards under the RBS Deferral Plan is scheduled to vest (i.e., they remain subject to forfeiture in the event of a termination for cause or grantee engaging in detrimental activity or competitive activity (in each case, as defined in the RBS Deferral Plan)) ratably in four installments on each of June 6, 2014, March 9, 2015, March 7, 2016

and March 7, 2017. Code Staff (which, for 2013, included Mr. Van Saun and Mss. Shanik and Alemany) are required to hold their RBS shares for at least six months following the applicable vesting date. For details, see [Applicability of UK and European Remuneration Rules](#) below.

Each of our NEOs (other than our CEO) received the following number of deferred share awards in respect of their annual incentive awards for the 2013 performance year: Mr. Fawcett (101,428);

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Mr. Matthews (125,148); Mr. Conner (79,533); and Ms. Shanik (102,340). Under the SEC reporting rules, these numbers will appear in the **Stock Awards** column of our 2014 Summary Compensation Table, which will be included in our annual proxy statement for the 2014 fiscal year. For the amount of the deferred bond portion of our NEOs annual incentive awards for the 2013 performance year, see the **Bonus** column of the 2013 Summary Compensation Table below, along with accompanying footnotes.

Outstanding deferred share awards held by our employees are expected to be converted into equity awards of our stock upon completion of this offering. For details, see **Our Compensation in Connection with this Offering Conversion of Outstanding RBS Deferred Share Awards, LTIP Awards and Special IPO Awards** below.

Special One-Time Allowances

In addition, in February 2014, RBS approved funding for special one-time cash allowances for certain of our employees. These allowances, which will be paid in June 2014, relate to the 2013 performance year and are designed to provide additional cash compensation during 2014 to selected employees significantly impacted by the bonus deferral schedule for the 2013 performance year, with a focus on employees in our customer-facing businesses. Two of our NEOs Messrs. Matthews and Conner will be receiving such allowances. For the amounts of these one-time allowances to be paid to Messrs. Matthews and Conner, see the **Bonus** column of the 2013 Summary Compensation Table below, along with accompanying footnotes.

Annual Incentive Awards Going Forward

We have adopted an annual incentive plan in which our NEOs will participate starting with the 2014 performance year. For details and a summary of material terms, see **Our Anticipated NEO Compensation Program Following the Offering Annual Incentive Plan** below.

Long-Term Incentive Awards

The compensation philosophy of rewarding the achievement of long-term company objectives has also been, prior to this offering, accomplished by providing our NEOs with the opportunity to receive RBS equity awards that vested over time, subject to the satisfaction of certain performance conditions. Prior to this offering, long-term equity-based awards granted to our NEOs and certain other employees have been granted pursuant to the RBS 2010 Long-Term Incentive Plan, or the LTIP. These awards, or LTIP awards, have historically been granted on an annual basis, at the same time AIP awards are made, and have been structured in the form of a right to receive a number of RBS shares after a three-year performance period in a maximum amount of 100% of the RBS shares underlying the award originally granted, subject to the satisfaction of certain performance conditions and exercise of RemCo's negative discretion. All LTIP awards are subject to clawback provisions during the performance period under the accountability review process and, for 2014 awards, are also subject to post-vesting clawback. For details, see **Clawback Policy** below.

LTIP awards granted to our NEOs have been subject to a range of financial and non-financial RBS, divisional and functional performance measures. With respect to LTIP awards granted in 2013, the vesting of:

Mr. Van Saun's award is 100% based on RBS performance;

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Messrs. Matthews' s and Conner' s awards and Ms. Alemany' s award are 25% based on RBS performance and 75% based on our performance; and

Mr. Fawcett' s and Ms. Shanik' s awards are 50% based on our performance, 25% based on RBS-wide functional performance and 25% based on RBS performance.

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The percentage of LTIP awards that vests is determined by RemCo at the end of the performance period based on RemCo's assessment of financial and non-financial performance of RBS, CFG and functions (such as finance, risk, legal and human resources), as applicable, and is subject to RemCo's negative discretion. Our performance measures focus on our financial and operational performance, effective risk management and customer and people measures but are not formulaic, and are assessed by RemCo holistically. The ultimate vesting of an LTIP award could vary between 0% and 100% of the RBS shares underlying the awards originally granted. It is intended that the vesting level will be the same for all employees in the same division or function, unless a clawback event occurs. For the amounts of LTIP awards granted to our NEOs in 2013 and applicable vesting provisions, see the [Stock Awards](#) column of the [2013 Summary Compensation Table](#) below and the [2013 Grants of RBS Plan-Based Awards](#) table below, along with accompanying footnotes.

In anticipation of this offering, our employees, including our NEOs, did not receive traditional LTIP awards in 2014. Instead, our NEOs and certain other key employees received RBS special equity awards. For additional details regarding the terms and amounts of these special awards, see [Our Compensation in Connection with This Offering - Special IPO Awards Granted in 2014](#) below.

Outstanding LTIP awards held by our employees are expected to be converted into equity awards of our stock upon completion of this offering, as described in the [Our Compensation in Connection with This Offering - Conversion of Outstanding RBS Deferred Share Awards, LTIP Awards and Special IPO Awards](#) below.

Other Benefits
Employment Agreements/Offer Letters and Severance Benefits

We have entered into an employment agreement with our CEO and offer letters with each of our other NEOs that contain covenants, such as those prohibiting post-employment competition or solicitation by the NEOs. For details, see [Compensation Tables - Potential Payments Upon Termination or Change in Control - Employment Agreements/Offer Letters with our NEOs](#) below.

In addition, our full-time employees, including our NEOs (other than our CEO who is eligible for severance under the terms of his employment agreement) are eligible for severance benefits in accordance with our severance practice, which provides for the payment of severance benefits to such employees in the event their employment with us is terminated without cause. For details, see [Compensation Tables - Potential Payments Upon Termination or Change in Control - Severance Practice](#) below.

Deferred Compensation Plans

Our employees may participate in two nonqualified deferred compensation plans - the CFG Deferred Compensation Plan and the RBS Americas Deferred Compensation Plan. Following closure of the CFG Deferred Compensation Plan to new participants on December 31, 2008, the RBS Americas Deferred Compensation Plan was adopted, effective as of January 1, 2009. The deferred compensation plans currently do not offer any matching contributions or provide for above-market earnings, and none of our NEOs participated in these plans during 2013. Only Ms. Alemany had a balance under each of these plans as of December 31, 2013. For a description of the material terms of these deferred compensation plans, see [Compensation Tables - Nonqualified Deferred Compensation](#) below.

401(k) Plan

We maintain a qualified defined contribution 401(k) plan for all of our employees. Employees may defer up to 50% of their eligible pay to the plan (up to Internal Revenue Code limits). After employees

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have completed one full year of service, employee contributions are matched at 100% up to an overall limit of 5% on a pay period basis and employees receive an additional company contribution equal to 2% of earnings, subject to limits set by the Internal Revenue Service. Our NEOs are entitled to participate in our 401(k) plan on the same basis as our employees generally, except that Mr. Van Saun is not eligible to receive any company contributions under our 401(k) plan.

Health and Welfare Benefit Plans

Our NEOs are currently eligible to participate in CFG-sponsored benefit programs, offered on the same terms and conditions as those made generally available to our employees, including medical, dental, vision, short-term and long-term disability plans.

Perquisites and Other Benefits

We provide our NEOs with company-selected independent advisors to assist them with financial planning, if desired by the executives. Our NEOs are also covered by a relocation policy (which includes a reimbursement for taxes related to relocation expenses) and a charitable contribution policy that generally covers all our employees. Additionally, Mr. Matthews received temporary housing benefits in excess of benefits provided for under the relocation policy, as described in footnote 7 to the 2013 Summary Compensation Table below. In 2013, we also provided certain of our NEOs with reimbursements for taxes relating to financial planning. Mr. Van Saun was also eligible for a housing allowance during his employment as RBS's Chief Financial Officer. For details, see footnote 7 to the 2013 Summary Compensation Table below.

Lastly, Mr. Van Saun receives and Ms. Alemany received an annual pension and benefits allowance. For Mr. Van Saun, this benefit is intended to make him whole for certain pension and benefits funding available to him during his service to RBS in the UK and has been increased, effective as of April 1, 2014, to an annual payment of \$561,929 (from \$519,659) in connection with the increase of his base salary; for Ms. Alemany, this payment was intended to make her whole for certain pension benefits she received from her former employer.

Clawback Policy

RBS has implemented a group-wide accountability review process to ensure that there is a standardized process for RBS to take appropriate action in instances where new and restated financial information would change the bonus and/or long-term incentive decisions which were made in previous years or which will be made in the current year. The CFG Accountability Review Panel, or ARP, meets on a quarterly basis to consider the events referred for its review and the proposed recommendations for action. To the extent further action is deemed appropriate by the ARP, our CEO is responsible for making final decisions based on the recommendations and advice of the ARP. The potential accountability review actions can include compensation adjustments (e.g., current-year bonus reduction or clawback), disciplinary action (e.g., dismissal) and performance adjustments (e.g., a change to performance rating).

In addition, all RBS Deferral Plan and LTIP awards are subject to clawback provisions contained in the relevant plan rules. Specifically, under these plans, an award may be reduced before it is paid out if, following the grant date, RBS becomes aware of information that would have affected the decision about the executive's performance or learns that the performance factors on which reward decisions were based do not turn out to be accurate. RBS may also reclaim any unpaid portion of an award if RBS or an executive's business unit suffers a material downturn in its financial performance or suffers a material failure of risk management. Awards granted under the RBS Deferral Plan and the LTIP in 2014 are also subject to clawback provisions which may apply post-vesting, normally for up to six months following the vesting date. This means the RBS may require individuals to repay some or all of

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their awards in exceptional circumstances where the conduct or performance of an individual has directly or indirectly resulted in the occurrence of a material event which has significantly impacted the reputation and/or financial performance of RBS.

In addition, our CEO and CFO are subject to clawbacks mandated by the Sarbanes-Oxley Act. Further, our Compensation Committee will monitor the regulatory developments related to clawbacks, including under the Dodd-Frank Act, and will modify its practices and policy, to the extent necessary, to comply with applicable law and regulations.

Balancing Risk and Incentive Compensation

We have implemented a multi-layered approach in order to ensure that we balance risk and incentive compensation. All employees, including our NEOs, participate in a robust performance management process whereby managers and employees develop a set of mutually agreed performance objectives during the first quarter of each performance year. All employees are reviewed annually as part of the performance management process and are rated 1 (low) 5 (high), which is a consideration in determining annual incentive awards. Included within an employee's performance management document are objectives and measures specifically relating to risk management.

As part of the effort to evaluate roles within the business to assess the inherent risk associated with each role, we operate a covered role identification process. Covered roles are roles that either individually or as part of a group can expose the firm to material amounts of risk. Individuals in covered roles, including each of the NEOs, have additional risk-based objectives that are included in their performance objectives as part of the performance management process referred to in the preceding paragraph.

In addition, we identify employees serving in covered roles who are members of executive management, serve in key control positions, are material risk-takers and/or have credit approval authority above a specified threshold as Tier 1 employees. Tier 1 employees are reviewed by our regional risk leadership as part of their year-end performance evaluation. The result of this evaluation is considered by senior management before year-end compensation is finalized. Each of our NEOs is a Tier 1 employee.

As a supplement to the performance management process, some individuals, including all NEOs, are subject to a 360 review. This process is completed through the use of an evaluation tool which allows for peer, subordinate and manager feedback. One of the areas that participants are evaluated on within the 360 review is risk. All participants receive an overall risk and control feedback score which reflects input from all feedback providers. Additionally, input from the assigned risk officer is separately highlighted in the results of the 360 review to ensure pointed risk feedback is obtained where applicable.

Lastly, as part of the management of the region, individual regional key leaders are reviewed together by our CEO and the RBS Americas management team to assess their performance from a regional management and risk perspective. The regional co-heads along with the regional head of human resources and chief risk officer complete this review and provide their input to the line management to assure that the regional point of view is taken into account when making final pay decisions. As we become an independent company and are no longer part of the RBS U.S. region, we expect this regional layer of review will no longer continue.

Table of Contents**Compensation Risk Assessment**

Our Compensation Committee will be undertaking a review of compensation policies and practices for all of our employees to determine whether our compensation policies and practices are reasonably likely to have a material adverse effect on us. This assessment will be completed prior to the completion of this offering.

Our Compensation in Connection with This Offering***Conversion of Outstanding RBS Deferred Share Awards, LTIP Awards and Special IPO Awards***

Upon completion of this offering, outstanding deferred share awards, LTIP awards and special IPO awards (described below) held by our employees are expected to be converted into awards in respect of our shares. The detailed terms of this conversion are still under consideration and will be disclosed once finalized. Other outstanding equity awards held by our employees (i.e., stock options outstanding under the RBS Group 2007 Executive Share Option Plan) will continue as currently in effect following this offering. For the amounts of such outstanding stock options, see Outstanding RBS Equity Awards at 2013 Fiscal Year-End table below.

Special IPO Awards Granted in 2014

As mentioned above, in anticipation of this offering, our employees, including our NEOs, did not receive any LTIP awards in 2014 for the 2013 performance year. In lieu of such typical annual LTIP awards granted historically, RemCo granted to certain of our employees, including the NEOs, special IPO awards. The special IPO awards have been granted subject to the LTIP rules (except as indicated otherwise in the award certificates) and have been initially denominated 50% in a convertible bond and 50% as a right to receive RBS shares. The entire award will convert into a right to receive our shares based on our stock price at the effective time of the IPO.

The special IPO awards are scheduled to vest 50% in March 2016 and 50% in March 2017, subject to satisfaction of the following conditions: (i) completion of the initial public offering on or by December 31, 2014; (ii) the grantee receiving a 3 performance rating (fully satisfactory) for each performance year ending on December 31 of 2014, 2015 and 2016; and (iii) the grantee being in continuous employment with us through the applicable vesting date, unless the grantee leaves under certain good leaver circumstances described in the award certificate. If the initial offering is not completed on or by December 31, 2014, RemCo will have discretion to provide for the vesting of some or a portion of these awards in its discretion.

Similarly to other 2014 LTIP awards, these special IPO awards are subject to clawback provisions which may apply prior to and following vesting. See Clawback Policy above.

Our Anticipated NEO Compensation Program Following the Offering

In anticipation of becoming a public company, we have been working to develop our own compensation philosophy, objectives and procedures for the period following the completion of this offering. We anticipate that our compensation philosophy and objectives will be similar to the principles currently followed by RBS with respect to our NEOs as described above. Our Compensation Committee will review the impact of the offering on all aspects of compensation and may make adjustments to the compensation program as it deems appropriate and in the best interests of our shareholders. Together with our Board of Directors, our Compensation Committee will be responsible for determining our compensation philosophy, consistent with all applicable laws and regulations. In this regard, our Compensation Committee will work with RemCo to ensure compliance with UK and European remuneration regulations while those regulations continue to apply to us. For further details, see Applicability of UK and European

Remuneration Rules below.

Table of Contents***Annual Incentive Plan***

Bonuses payable to our NEOs will be subject to the maximums set forth in the RBS Citizens Financial Group, Inc. Performance Formula and Incentive Plan, or the Section 162(m) Plan, which was adopted in connection with this offering. The Section 162(m) Plan has been designed to grant annual incentive awards that are intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. We anticipate granting awards under the Section 162(m) Plan starting in respect of the 2014 performance year. At the beginning of each performance year, our Compensation Committee will designate participants in the Section 162(m) Plan for the relevant year. The Section 162(m) Plan sets forth the maximum annual incentive award that can be granted to any participant for any year at 2% of adjusted pretax operating income for our CEO and 0.7% of pretax operating income for other participants. Our Compensation Committee may use negative discretion to reduce the amount of each participating executive's annual incentive award based on our Compensation Committee's assessment of company and individual performance during the relevant year.

The Section 162(m) plan defines "pretax operating income" as, for the applicable fiscal year, our consolidated pretax income, adjusted to exclude the impact of any extraordinary items, goodwill impairment, integration and restructuring costs, discontinued operations, acquisition costs, gains or losses on strategic disposals, pension curtailments or settlements, cumulative effect of accounting changes, valuation adjustments related to debt accounted for at fair value, and other unusual or non-recurring items of loss or expense. In each case, all of the preceding terms included in the definition of "pretax operating income" will have the meanings as defined by generally accepted accounting principles accepted in the United States of America and identified in the audited financial statements, notes to the audited financial statements, management's discussion and analysis or our other filings with the SEC.

Omnibus Incentive Plan

In connection with this offering, we plan to adopt an omnibus incentive plan, pursuant to which we will be permitted to grant a variety of equity-based and cash-based incentive awards. A description of this plan will be provided once it has been adopted.

Employee Stock Purchase Plan

We intend to adopt an employee stock purchase plan, pursuant to which our employees will be able to purchase shares of our stock following the offering. Pursuant to the plan, employees will be permitted to contribute up to a specified percentage of their salary, which will be used to purchase shares at a discount. A description of this plan will be provided once it has been adopted.

Share Ownership Guidelines

Mr. Van Saun is currently subject to share ownership guidelines of RBS as a member of the RBS executive committee, which require him to hold RBS shares worth 125% of salary (excluding unvested RBS shares granted under RBS share plans, including the RBS Deferral Plan and LTIP). The requirement will cease to apply when Mr. Van Saun is no longer a member of RBS's executive committee, which is expected to occur on or before the effective date of the offering. We intend to adopt share ownership guidelines for our executives and directors in connection with this offering. A description of these guidelines will be provided once they have been adopted.

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Prohibition on Hedging and Pledging

We intend to adopt a policy prohibiting any of our insiders, including our NEOs, from hedging or pledging their ownership in our securities (including equity-based awards), which would undermine the risk alignment effects embedded in our equity-based compensation arrangements. A similar prohibition already exists in respect of awards granted under the RBS Deferral Plan and LTIP.

Tax Deductibility of Compensation

Under Section 162(m), a public company generally may not deduct compensation in excess of \$1 million paid to its chief executive officer and the three other most highly compensated executive officers (other than the chief financial officer), unless the compensation qualifies as performance-based. We intend to seek to maximize deductibility under Section 162(m) of all elements of compensation of such employees, from and after the time that our compensation programs become subject to Section 162(m). Following this offering, we generally intend to structure our equity-based and cash-based incentive awards to meet the exception under Section 162(m) for performance-based compensation and to minimize the impact of Section 162(m). However, to maintain flexibility in compensating our executives, we do not have a policy requiring compensation to be fully deductible under Section 162(m).

Applicability of UK and European Remuneration Rules

Due to RBS's ownership of us, certain employees are identified as Code Staff and are subject to specific requirements regarding the oversight, structure and delivery of variable pay under the UK Remuneration Code, or the UK Code. During 2013, Mr. Van Saun and Mss. Shanik and Alemany were our only employees determined to be Code Staff. Specifically, under the UK Code, a minimum of 40% (for employees with total compensation up to £500,000) or 60% (for employees with total compensation over £500,000) of variable pay must be deferred over a minimum three-year period, vesting no faster than on an annual pro rata basis. A minimum of 50% of any variable pay, both immediate and deferred, must be delivered in equity or equivalents. Awards granted under the RBS Deferral Plan and LTIP must comply with these requirements.

Awards granted under the RBS Deferral Plan are at risk of cancellation or forfeiture if a grantee is terminated for cause or engages in a detrimental activity or competitive activity (in each case, as defined in the RBS Deferral Plan). In addition, 2014 awards only are also subject to post-vesting clawback for up to six months following vesting. See Clawback Policy above for details. Shares delivered to Code Staff upon vesting of deferred share awards must also be held for a period of six months post-vesting before they may be sold or transferred.

Awards granted under the LTIP are at risk of cancellation or forfeiture if a grantee leaves the RBS other than in limited good leaver circumstances (as described in the LTIP) or if applicable performance conditions are not satisfied. In addition, 2014 awards only are also subject to post-vesting clawback for up to six months following vesting. See Clawback Policy above for details. Shares delivered to Code Staff upon vesting of LTIP awards must also be held for a period of six months post-vesting before they may be sold or transferred.

The Code Staff definition currently in effect was recently expanded by the new European Banking Authority criteria to include material risk takers. The number of our employees deemed to be material risk takers will be greater than those currently identified as Code Staff and will result in additional employees having to comply with the Code Staff rules described above.

As a result of the implications of CRD IV, material risk takers (which will include our NEOs) may not receive variable compensation in excess of 100% of fixed compensation (200% with shareholder

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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 the structure of our compensation packages may not be considered in line with our peers. Our Compensation Committee will work with RemCo to ensure compliance with applicable UK and European remuneration regulations for so long as they continue to apply to us. Once we cease to be subject to UK and European remuneration regulations, we will evaluate and modify our compensation structure as appropriate so that it is aligned with our peers and continues to attract and retain the high-caliber talent necessary to maximize long-term shareholder value.

Table of Contents**COMPENSATION TABLES****2013 Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)⁽³⁾	Stock Awards (\$)⁽⁴⁾⁽⁵⁾	Change in Pension Value and Nonqualified Deferred Compensation Earnings⁽⁶⁾	All Other Compensation⁽⁷⁾	Total (\$)
Bruce Van Saun, Chairman & Chief Executive Officer ⁽¹⁾⁽²⁾	2013	\$ 1,203,538	\$	\$ 3,733,933		\$ 726,447	\$ 5,663,918
John J. Fawcett, Chief Financial Officer	2013	700,000	39,115	805,939	520	20,250	1,565,824
Robert D. Matthews, Jr., Head of Commercial Banking	2013	750,000	189,115	960,943	505	308,136	2,208,699
Brad L. Conner, Head of Consumer Banking	2013	700,000	189,115	860,942	505	36,063	1,786,625
Nancy L. Shanik, Chief Risk Officer	2013	575,000	39,115	1,058,336	670	20,250	1,693,371
Ellen Alemany, Former Chairman & Chief Executive Officer ⁽¹⁾	2013	2,115,385		3,958,329	2,214	1,412,793	7,488,721

(1) Ms. Alemany served as our Chairman and Chief Executive Officer until her retirement on September 30, 2013, with Mr. Van Saun succeeding her in such roles as of October 1, 2013. Prior to that date, Mr. Van Saun served as RBS's Chief Financial Officer. Compensation amounts for Mr. Van Saun in the above 2013 Summary Compensation Table include compensation received during 2013 from RBS for his services as RBS's Chief Financial Officer as well as compensation received from us for his services as our Chief Executive Officer.

(2) Other than for stock awards, Mr. Van Saun's compensation that was earned during 2013 for his services as RBS's Chief Financial Officer has been converted from British Pounds Sterling to U.S. dollars using the year-to-date average exchange rate as of December 31, 2013 of 1.5645922 used by RBS for internal purposes.

- (3) The amounts in this column include, for Messrs. Fawcett, Matthews and Conner and Ms. Shanik, the RBS deferred bond component of the annual AIP awards paid to each of them in 2014 with respect to the 2013 performance year: \$3,129 of this AIP award was paid in March 2014 and \$35,986 will be deferred until June 6, 2014. In addition, for each of Messrs. Matthews and Conner, the amounts in this column include \$150,000 as a special one-time cash allowance that will be paid to each of them in June 2014 as compensation relating to the 2013 performance year.
- (4) Although deferred share awards and LTIP awards are initially expressed in British Pounds Sterling, those amounts were converted by RBS into U.S. dollars at the time of grant for U.S. employees, including our NEOs, other than Mr. Van Saun who at the time of grant in 2013 was employed as RBS's Chief Financial Officer. In converting these awards into U.S. dollars, RBS used the average exchange rate for the five trading days on the London Stock Exchange preceding the grant date, which was 1.50562. We have used the same exchange rate to convert the value of Mr. Van Saun's equity awards.
- (5) The amounts in this column reflect the aggregate grant date fair value of the deferred share awards granted under the RBS Deferral Plan and awards granted under the LTIP in 2013 in respect of the 2012 performance year, in each case, calculated in accordance with FASB ASC Topic 718, excluding the effect of estimated forfeitures. The amounts for the LTIP awards were calculated based on the probable outcome of the performance conditions as of the grant date, consistent with the estimate of aggregate compensation cost to be recognized over the service period determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures. For a breakdown of these amounts, see the "Grant Date Fair Value of Stock and Option Awards" column of the "2013 Grants of RBS Plan-Based Awards" table below. The actual value, if any, realized by the NEOs for these awards is a function of the value of the underlying shares if and when these awards vest and, for LTIP awards, holistic assessment by RemCo of the applicable performance guideposts (and subject to RemCo's negative discretion). For purposes of this table and the tables that follow, deferred share awards are considered "unvested" to the extent they remain subject to forfeiture in the event of a termination for "cause" or grantee's engaging in a "detrimental activity" or "competitive activity" (in each case, as defined in the RBS Deferral Plan).

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The following are the values of the LTIP awards as of the grant date, assuming attainment of the maximum level of performance: Mr. Van Saun, (\$3,387,645); Mr. Fawcett, (\$840,002); Mr. Matthews, (\$1,050,002); Mr. Conner, (\$900,001); Ms. Shanik, (\$725,000); and Ms. Alemany (\$3,500,000).

- (6) The amounts in this column reflect the portion of interest earned during 2013 on outstanding deferred bonds granted under the RBS Deferral Plan in excess of 120% of the applicable U.S. federal long-term rate.
- (7) The amounts in this column reflect the aggregate incremental cost of certain perquisites and other benefits (to the extent the total value of such perquisites and personal benefits for a named executive officer was \$10,000 or more) provided to the named executive officers in 2013 as follows:
- (a) For Mr. Van Saun, (i) with respect to his services to RBS, includes a housing allowance in the amount of \$252,269; his benefits funding in the amount of \$30,829; and his pension funding in the amount of \$312,429; and (ii) with respect to his services to us, includes his pension and benefits allowance in the amount of \$119,921 (as described under Potential Payments Upon Termination or Change in Control Employment Agreements/Offer Letters with our NEOs below); and charitable matching contributions made by us on behalf of Mr. Van Saun in the amount of \$11,000.
 - (b) For Mr. Fawcett, represents company contributions to the 401(k) plan in the amount of \$20,250.
 - (c) For Mr. Matthews, includes company contributions to the 401(k) plan in the amount of \$12,750; financial planning services in the amount of \$13,220; housing and related expenses for a corporate apartment in Boston, Massachusetts in the amount of \$131,031 (which benefit has been discontinued as of February 28, 2014); reimbursement for taxes relating to the housing and related expenses in the amount of \$117,135; reimbursement for taxes relating to financial planning in the amount of \$9,000; and charitable matching contributions made by us on behalf of Mr. Matthews in the amount of \$25,000.
 - (d) For Mr. Conner, includes company contributions to the 401(k) plan in the amount of \$13,110; financial planning services in the amount of \$13,220; and reimbursement for taxes relating to financial planning in the amount of \$9,733.
 - (e) For Ms. Shanik, represents company contributions to the 401(k) plan in the amount of \$20,250.
 - (f) For Ms. Alemany, includes company contributions to the 401(k) plan in the amount of \$12,865; financial planning services in the amount of \$13,220; a pension allowance in the amount of \$740,385; a payment in the amount of \$500,000 made to Ms. Alemany as compensation for providing consulting services to us upon request through the end of 2013; company-paid long-term disability premiums in the amount of \$52,244 under the executive long-term disability plan in effect at the time Ms. Alemany joined CFG; reimbursement for taxes in the amount of \$66,579 relating to financial planning and the long-term disability coverage; and charitable matching contributions made by us on behalf of Ms. Alemany in the amount of \$27,500.

2013 Grants of RBS Plan-Based Awards

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards ⁽¹⁾			All Other Stock Awards: Number of Shares of Stock or Units (#) ⁽²⁾	Grant Date Fair Value of Stock and Option Awards (\$) ⁽³⁾
		Threshold (#)	Target (#)	Maximum (#)		
Bruce Van Saun	3/8/13			727,685		\$ 2,258,425
	3/8/13				316,947	1,475,508
John J. Fawcett	3/8/13			180,437		560,000
	3/8/13				52,829	245,939
Robert D. Matthews, Jr.	3/8/13			225,546		700,000
	3/8/13				56,052	260,943
Brad L. Conner	3/8/13			193,325		599,999
	3/8/13				56,052	260,943
Nancy L. Shanik	3/8/13			155,734		483,332
	3/8/13				123,514	575,004
Ellen Alemany	3/8/13			751,819		2,333,328
	3/8/13				349,059	1,625,001

⁽¹⁾ The amounts in this column represent RBS LTIP awards granted in 2013. There is no threshold or target level of performance for these LTIP awards, and the number of RBS shares reflected above is the maximum number of shares that may be earned under the terms of these awards, assuming attainment of the maximum level of performance. For additional information, see Compensation Discussion and Analysis Components of our Executive Compensation Program and Analysis Long-Term Incentive Awards above.

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- (2) The amounts in this column represent RBS deferred share awards granted under the RBS Deferral Plan in 2013 for the 2012 performance year. For additional details, see Compensation Discussion and Analysis Components of our Executive Compensation Program and Analysis Annual Incentive Awards Mandatory Deferral of 2013 Annual Incentive Awards above.
- (3) This column reflects the grant date value of deferred share awards and LTIP awards, calculated in accordance with FASB ASC Topic 718, excluding the effect of estimated forfeitures. The amounts for LTIP awards granted in 2013 were calculated based on the probable outcome of the performance conditions as of the grant date, consistent with the estimate of aggregate compensation cost to be recognized over the service period determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures. The actual value, if any, realized by the NEOs for these awards is a function of the value of the underlying shares if and when these awards vest and, for LTIP awards, holistic assessment by RemCo of the applicable performance guideposts. Grant date fair values of these awards were initially expressed in British Pounds Sterling. For details regarding how these values were converted into U.S. dollars, see footnote 4 to the 2013 Summary Compensation Table above.

Outstanding RBS Equity Awards at 2013 Fiscal Year-End

Name	Option Awards				Stock Awards		
	Number of Securities Underlying Unexercised Options (#)	Exercise Price (\$)(1)	Expiration Date(3)	Number of Shares or Units of Stock That Have Not Vested(4)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(5)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested(6)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)(5)
Bruce Van Saun		\$		150,000(9) 316,947(10)	\$ 838,928 1,772,637	170,677(6) 803,859(7) 727,685(8)	\$ 954,571 4,495,861 4,069,833
John J. Fawcett	212,451	4.66	4/2/19	12,315(11) 34,544(9) 52,829(10)	68,876 193,199 295,465	56,259(6) 188,820(7) 180,437(8)	314,648 1,056,044 1,009,157

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Robert D. Matthews, Jr.	109,260	4.66	4/2/19			51,785 ⁽⁶⁾	289,626
						168,590 ⁽⁷⁾	942,896
						225,546 ⁽⁸⁾	1,261,445
				11,970 ⁽¹¹⁾	66,946		
				43,422 ⁽⁹⁾	242,853		
				56,052 ⁽¹⁰⁾	313,490		
Brad L. Conner	145,680	4.66	4/2/19			44,880 ⁽⁶⁾	251,007
						144,987 ⁽⁷⁾	810,891
						193,325 ⁽⁸⁾	1,081,238
				11,970 ⁽¹¹⁾	66,946		
				43,422 ⁽⁹⁾	242,853		
				56,052 ⁽¹⁰⁾	313,490		
Nancy L. Shanik						41,290 ⁽⁶⁾	230,929
						144,987 ⁽⁷⁾	810,891
						155,734 ⁽⁸⁾	870,997
				15,881 ⁽¹¹⁾	88,820		
				51,701 ⁽⁹⁾	289,156		
				74,108 ⁽¹⁰⁾	414,475		

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Name	Option Awards				Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Other Rights That Have Not Vested	
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Exercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Exercise Price (\$) ⁽²⁾	Expiration Date ⁽³⁾	Number of Shares or Units of Stock That Have Not Vested ⁽⁴⁾	Market Value of Stock That Have Not Vested (\$) ⁽⁵⁾	Equity Incentive Plan Awards: Number of Unearned Shares, Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Other Rights That Have Not Vested (\$) ⁽⁵⁾
Ellen Alemany	805,251			4.66	9/29/14				
								269,281 ⁽⁶⁾	1,506,048
								786,751 ⁽⁷⁾	4,400,182
								501,213 ⁽⁸⁾	2,803,209
						52,475 ⁽¹¹⁾	293,485		
						139,368 ⁽⁹⁾	779,464		
						209,435 ⁽¹⁰⁾	1,171,339		

(1) The amounts in this column reflect stock options that were granted under the RBS Group 2007 Executive Share Option Plan, or Option Plan, on April 3, 2009 to certain of our NEOs. These options cliff-vested and became exercisable on April 3, 2012. No other options have been granted to our NEOs since April 3, 2009.

(2) Stock options were granted with an exercise price equal to the fair market value of RBS shares on the date of grant of 2.82 British Pounds Sterling, which has been converted into U.S. Dollars using the 1.6542 exchange rate, which was the rate used by RBS for internal purposes as of December 31, 2013.

(3) This column reflects the expiration date of stock options outstanding as of December 31, 2013. Ms. Alemany's stock options expire on September 29, 2014 due to the termination of her employment by reason of her retirement. When we cease to be a member of the RBS (as defined in the Option Plan), our employees (including the NEOs) will be treated as having terminated employment under the terms of their option awards and will have 12 months to exercise outstanding options.

(4) The amounts in this column reflect deferred share awards granted under the RBS Deferral Plan that remained unvested as of December 31, 2013.

- (5) Values in these columns have been calculated by multiplying the number of shares outstanding as of December 31, 2013 by £3.381, the closing price on the London Stock Exchange for RBS shares as of December 31, 2013, and converted into U.S. Dollars using the 1.6542 exchange rate, which was the rate used by RBS for internal purposes as of December 31, 2013. For LTIP awards, the amounts in this column assume assessment by RemCo of the maximum level of performance for LTIP awards granted in 2012 and 2013 (assuming no exercise of negative discretion by RemCo) and actual performance as assessed by RemCo for the 2011–2013 performance cycle for LTIP awards granted in 2011 (along with applicable exercise of negative discretion). For additional information, see Compensation Discussion and Analysis Components of our Executive Compensation Program and Analysis Long-Term Incentive Awards above.
- (6) These amounts reflect the number of shares underlying LTIP awards granted on March 7, 2011 that were unvested but expected to vest (Mr. Van Saun at 27%; Mr. Fawcett at 48.50%; Messrs. Matthews and Conner at 50%; Ms. Shanik at 46%; and Ms. Alemany at 48.75%) on March 7, 2014, based on RemCo’s holistic assessment of actual performance with respect to certain RBS, CFG and functional performance guideposts for the January 1, 2011 to December 31, 2013 performance period and exercise of negative discretion by RemCo.
- (7) These amounts reflect the maximum number of shares underlying LTIP awards granted on March 7, 2012 which are scheduled to vest on March 9, 2015 between 0% and 100% based on RemCo’s holistic assessment of certain RBS, CFG and functional performance guideposts for the January 1, 2012 to December 31, 2014 performance period and exercise of negative discretion by RemCo, if any.
- (8) These amounts reflect the maximum number of shares underlying LTIP awards granted on March 8, 2013 which are scheduled to vest on March 7, 2016 between 0% and 100% based on RemCo’s holistic assessment of certain RBS, CFG and functional performance guideposts for the January 1, 2013 to December 31, 2015 performance period and exercise of negative discretion by RemCo, if any. For Ms. Alemany, this reflects two-thirds of her 2013 LTIP award, to which she was entitled pursuant to her separation agreement. For details, see Potential Payments Upon Termination or Change in Control Separation Agreement with Ellen Alemany.
- (9) These amounts reflect unvested deferred share awards granted under the RBS Deferral Plan in March 2012 relating to the 2011 performance year. Three installments of deferred share awards granted to Mss. Alemany and Shanik have already vested on March 7, 2012, March 8, 2013 (March 7, 2013 for Ms. Shanik) and March 7, 2014, with the remaining installment scheduled to vest on March 9, 2015. One-half of the deferred share awards granted to Mr. Van Saun vested on March 8, 2013 and the other half vested on March 7, 2014. Deferred share awards granted to Messrs. Fawcett, Matthews and Conner vested as to one-third on March 7, 2013, one-third on March 7, 2014 and the remaining one-third is scheduled to vest on March 9, 2015. RBS shares delivered upon vesting to Mr. Van Saun and Mss. Shanik and Alemany are subject to an additional six-month holding period following each vesting date since they were Code Staff for 2012. For additional details, see Compensation Discussion and Analysis Components of our Executive Compensation Program and Analysis Annual Incentive Awards Mandatory Deferral of 2013 Annual Incentive Awards and Compensation Discussion and Analysis Applicability of UK and European Remuneration Rules above.
- (10) These amounts reflect unvested deferred share awards granted under the RBS Deferral Plan in March 2013 relating to the 2012 performance year. Two installments of the deferred share awards granted to Mss. Alemany and Shanik have already vested on March 8, 2013 (March 7, 2013 for Ms. Shanik) and March 7, 2014, with the remaining installments scheduled to vest on March 9, 2015 and March 7, 2016. One-half of the deferred share

awards granted to Mr. Van Saun vested on March 7, 2014 and the other half is scheduled to vest on March 9, 2015. Deferred share awards granted to Messrs. Fawcett, Matthews and Conner vested as to one-third on March 7, 2014, and the remaining two-thirds is scheduled to vest in two equal installments on March 9, 2015 and March 7, 2016. RBS shares delivered upon vesting to Mr. Van Saun and Mss. Shanik and Alemany are subject to an additional six-month holding period following each vesting date since they were Code Staff for 2013. For additional details, see Compensation Discussion and Analysis Components of our Executive Compensation Program and Analysis Annual Incentive Awards Mandatory Deferral of 2013 Annual Incentive Awards and Compensation Discussion and Analysis Applicability of UK and European Remuneration Rules above.

- (11) These amounts reflect unvested deferred share awards granted under the RBS Deferral Plan in March 2011 relating to the 2010 performance year. Deferred share awards granted to Mss. Shanik and Alemany vested in four installments on each of March 7, 2011, March 9, 2012 (March 7, 2012 for Ms. Shanik), March 8, 2013 (March 7, 2013 for Ms. Shanik) and March 7, 2014. Deferred share awards granted to Messrs. Fawcett, Matthews and Conner vested in three equal installments on March 7 of each of 2012, 2013 and 2014. RBS shares delivered upon vesting to Mr. Van Saun and Mss. Shanik and Alemany are subject to an additional six-month holding period following each vesting date since they were Code Staff for 2011. For additional details, see Compensation Discussion and Analysis Components of our Executive Compensation Program and Analysis Annual Incentive Awards Mandatory Deferral of 2013 Annual Incentive Awards and Compensation Discussion and Analysis Applicability of UK and European Remuneration Rules above.

Table of Contents**RBS Options Exercised and Stock Vested in 2013**

Name	Stock Awards	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) ⁽¹⁾
Bruce Van Saun	301,544	\$ 1,378,344
John J. Fawcett	174,507	803,627
Robert D. Matthews, Jr.	193,156	889,452
Brad L. Conner	194,705	896,601
Nancy L. Shanik	91,136	415,177
Ellen Alemany	547,702	2,516,184

(1) The values reflected in this column have been calculated by multiplying the number of shares underlying outstanding equity awards that vested on each relevant date by the closing price on the London Stock Exchange of RBS shares on such date, and then converted into U.S. Dollars based on the exchange rate used by RBS for internal purposes as of each such date, which were as follows: March 7, 2013 (1.5025); March 8, 2013 (1.4928); and May 14, 2013 (1.5257).

Nonqualified Deferred Compensation

Name	Executive Contributions in Last FY (\$)	Registrant Contributions in Last FY (\$) ⁽²⁾	Aggregate Earnings in Last FY (\$) ⁽³⁾	Aggregate Withdrawals (\$) ⁽⁴⁾	Aggregate Balance at Last FYE ⁽⁵⁾ (\$)
Bruce Van Saun ⁽¹⁾					
AIP awards deferred bonds	\$	\$	\$	\$	\$
Nonqualified deferred compensation plans ⁽⁶⁾					
John J. Fawcett					
AIP awards deferred bonds		35,986	12,460	836,599	522,996
Nonqualified deferred compensation plans ⁽⁶⁾					
Robert D. Matthews, Jr.					
AIP awards deferred bonds		35,986	12,741	874,130	578,810
Nonqualified deferred compensation plans ⁽⁶⁾					
Brad L. Conner					
AIP awards deferred bonds		35,986	12,741	874,130	578,810

Nonqualified deferred
compensation plans⁽⁶⁾

Nancy L. Shanik

AIP awards deferred bonds	35,986	13,297	473,297	737,838
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Nonqualified deferred
compensation plans⁽⁶⁾

Ellen Alemany

AIP awards deferred bonds		42,024	1,382,024	2,115,740
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Nonqualified deferred
compensation plans⁽⁶⁾

	916,156		706,193	8,716,007
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- (1) Mr. Van Saun does not have any deferred bonds outstanding as of December 31, 2013 as all of his AIP awards have been granted in the form of deferred share awards (as is the case with other executive directors of RBS), as determined by RBS following consultation with its shareholders.
- (2) Amounts in this column reflect the RBS deferred bond portion (with no interest) of the AIP award granted in 2014 for the 2013 performance year, the payment of which has been deferred until June 6, 2014. These amounts are also reflected in the Bonus column of the 2013 Summary Compensation Table for applicable NEOs.

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- (3) Amounts in this column reflect aggregate earnings on the RBS deferred bond portion of AIP awards during 2013 with respect to awards for the 2012 and 2011 performance years. These amounts include any nonqualified deferred compensation earnings that are disclosed in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column of the 2013 Summary Compensation Table and described in footnote 6 thereto.
- (4) Amounts in this column reflect the aggregate value of deferred bonds and accrued interest that were paid out during 2013 with respect to deferred bond portion of AIP awards for the 2012 and 2011 performance years.
- (5) All amounts deferred and earnings on such deferred amounts in 2013 have been reported in the Bonus and Change in Pension Value and Nonqualified Deferred Compensation Earnings columns of the 2013 Summary Compensation Table above.
- (6) Amounts in this row reflect amounts with respect to the CFG Deferred Compensation Plan and the RBS Americas Deferred Compensation Plan, the material terms of which are described below.

AIP Awards Deferred Bond Awards

As described in the Compensation Discussion & Analysis above, the time and the form of payment for AIP awards are determined by RemCo. Awards have been historically granted partially in deferred bonds (with interest in certain prior years) and partially in deferred share awards, and are subject to the terms and conditions of the RBS Deferral Plan. Deferred share awards that were granted to our NEOs in 2013 for the 2012 performance year are reflected in the 2013 Grants of RBS Plan-Based Awards table above, and all deferred share awards that remained outstanding as of December 31, 2013 are reflected in the Outstanding Equity Awards At 2013 Fiscal Year-End above.

Amounts in the above table relate to the RBS deferred bond portion of AIP awards, including applicable earnings, to the extent they have been paid during 2013 or remained outstanding as of December 31, 2013. Prior to awards for performance year 2013, deferred bond awards earned interest. Deferred bonds remain subject to the cancellation and forfeiture provisions included in the RBS Deferral Plan.

Nonqualified Deferred Compensation Plans

We maintain two nonqualified deferred compensation plans the CFG Deferred Compensation Plan and the RBS Americas Deferred Compensation Plan. Following closure of the CFG Deferred Compensation Plan to new participants on December 31, 2008, the RBS Americas Deferred Compensation Plan was adopted, effective as of January 1, 2009. The deferred compensation plans currently do not offer any matching contributions or provide for above-market earnings, and none of our NEOs participated in these plans during 2013. Only Ms. Alemany had a balance under each of these plans as of December 31, 2013.

Under the CFG Deferred Compensation Plan, eligibility was limited to our key officers as designated from time to time by our executive committee. Participants are permitted to defer between 1% and 90% of their base salary, annual bonus and payments under any long-term incentive plan, subject to a minimum deferral of \$5,000. Participants select the allocation of their accounts among investment indices available under the plan. Our Board of Directors may amend the plan at any time, as long as the amount accrued to the date of amendment in any account under the plan is not decreased or otherwise restricted, and may terminate the plan at any time. Pursuant to elections made by Ms. Alemany under the plan, certain amounts outstanding under this plan as of December 31, 2013 were paid to her in a lump sum following her retirement date and other amounts continue to be paid to her as part of a series of 10 annual

installments that commenced during her service.

Under the RBS Americas Deferred Compensation Plan, eligibility is limited to employees who have total compensation in the immediately preceding year equal to or exceeding the Internal Revenue Code Section 401(a)(17) limit for the relevant plan year. Participants are permitted to defer between 1% and 80% of their base salary and annual bonus. Participants select the allocation of their accounts

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among investment indices available under the plan. Our Board of Directors may amend the plan at any time, as long as the amount accrued to the date of amendment in any account under the plan is not decreased or otherwise restricted. Pursuant to elections made by Ms. Alemany under the plan, the amount outstanding under this plan as of December 31, 2013 will be paid to Ms. Alemany in 10 annual installments, with the first payment occurring six months following her retirement date.

Potential Payments Upon Termination or Change in Control

We have entered into an employment agreement with our CEO and offer letters with each of our other NEOs. In addition, our full-time employees, including our NEOs (other than our CEO who is eligible for severance under the terms of his employment agreement) are eligible for severance benefits pursuant to our severance practice. Material terms of our severance practice, our CEO's employment agreement and each of our other NEOs' offer letters are summarized below. Please see the Potential Payments Table section below for quantification of estimated payments, as provided for under these arrangements and the terms of outstanding equity awards (as applicable), that would be made to our NEOs under various termination scenarios or a change in control, assuming such event occurred on December 31, 2013.

In addition, following a termination of employment, our NEOs are entitled to the nonqualified deferred compensation amounts, to the extent vested, reported in the 2013 Nonqualified Deferred Compensation table above, subject to the terms of the arrangements, as described in the accompanying narrative.

Severance Practice

Our severance practice provides for the payment of severance benefits to eligible employees in the event their employment with us is terminated without cause. Under the severance practice, eligible employees who execute a severance and release agreement may receive a lump sum payment equal to two weeks of severance pay for each year of his or her employment, with a minimum payment of 26 weeks of base salary for individuals whose base salary exceeds \$300,000 and a maximum of 52 weeks of base salary payments (regardless of the employee's base salary).

In addition to severance pay, eligible employees are entitled to receive benefits under our then-existing health and welfare plans for a period of one month following the month in which termination of employment occurs at active employee rates, which is in addition to the COBRA continuation coverage periods. Outplacement services are also offered to eligible employees with the duration of such service varying by level of employee. We may amend or terminate this practice at any time.

Employment Agreements/Offer Letters with Our NEOs

We have entered into an employment agreement with Mr. Van Saun and offer letters with each of our other NEOs. Material terms of Mr. Van Saun's agreement and the other NEOs' offer letters are summarized below.

Employment Agreement with Mr. Van Saun

General Terms

In connection with his appointment, we entered into an offer letter and an employment agreement with our CEO, Mr. Van Saun, which were effective as of October 1, 2013 (referred to collectively as the employment agreement). Mr. Van Saun's compensation, as set forth in his employment agreement, was informed by negotiations between RBS, us and Mr. Van Saun, as well as the terms of his compensation arrangement during his tenure with RBS.

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Under the terms of Mr. Van Saun's employment agreement, Mr. Van Saun is:

entitled to:

an initial annual base salary of \$1,370,000;

an additional initial annual amount of \$519,659, or the Pension and Benefit Funding, which is intended to make Mr. Van Saun whole for pension and benefits funding received during his service to RBS in the UK;

participate in our employee benefit and welfare plans on a basis that is at least as favorable as that provided to our other executives who are based in the United States, except that he does not receive company contributions to the 401(k) plan;

relocation benefits under the RBS's relocation policy in connection with his relocation to the U.S.; and

the right to receive tax and advisory support through the U.S. tax year ending December 2015 and UK tax year ending March 2016 (unless he is terminated sooner for cause (as defined in his employment agreement and summarized below) or voluntarily resigns); and

is eligible for:

discretionary annual incentive awards under the applicable bonus program with a target bonus opportunity equal to 175% of Mr. Van Saun's base salary and maximum bonus opportunity equal to 250% of Mr. Van Saun's base salary; and

long-term equity-based awards under the LTIP with a target long-term incentive opportunity equal to 200% of Mr. Van Saun's base salary and maximum long-term incentive opportunity equal to 300% of Mr. Van Saun's base salary.

However, notwithstanding his eligibility under the bonus program and LTIP, as described above, starting with the 2014 performance year, Mr. Van Saun's variable compensation is subject to the limitations imposed by CRD IV for so long as such limitations continue to apply to us. For further details, see Compensation Discussion and Analysis Applicability of UK and European Remuneration Rules above.

Under the terms of his employment agreement, Mr. Van Saun is also entitled to certain severance benefits as described below.

Termination Without Cause or for Good Reason Absent Change in Control

Upon six-months' notice to Mr. Van Saun (or in the alternative, (i) payment in lieu of such notice equal to six months of his base salary and Pension and Benefit Funding, to be paid in installments on regularly scheduled payroll dates and reduced to offset other income he received during this period, or (ii) a six-month garden leave during which Mr. Van Saun will not be reporting to work but will continue to receive payments of his base salary and Pension and Benefit Funding), we can terminate Mr. Van Saun's employment without cause or, upon written notice to us, Mr. Van Saun can terminate his employment for good reason (as defined in his employment agreement and summarized below) if we fail to cure good reason circumstances within 30 days of receiving notice. Upon such terminations, in lieu of any other payments that may be due to him under any other severance plan or practice we maintain, Mr. Van Saun:

will be entitled to a lump sum cash payment equal to 12 months of his then base salary within 30 days of his termination;

will be treated as a good leaver by reason of redundancy under the RBS Deferral Plan and LTIP (which would result in him receiving his deferred share awards and LTIP awards on the

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original payment dates, subject to satisfaction of the applicable performance conditions, if any, and pro rata reductions); and

subject to his execution of a release and not being terminated by us for underperformance, will be entitled to receive a pro rata target incentive award under the applicable annual incentive plan in respect of the year in which such termination occurs, provided that there is an orderly handover of responsibilities.

In addition, upon his termination for good reason, Mr. Van Saun will receive a payment equal to six months of his base salary and Pension and Benefit Funding in lieu of the six-months notice requirement (to be paid in installments on regularly scheduled payroll dates and reduced to offset other income received during this period).

Termination in Connection with Change in Control

If, within six months of a disposal of CFG (which under his employment agreement is defined as a sale to a third party of all or substantially all of CFG), Mr. Van Saun is terminated by the applicable acquirer or resigns in direct response to being assigned to a position in which the nature or scope of his responsibilities or authority is not reasonably regarded as equivalent to or more senior to his position at us immediately prior to such sale, subject to his execution of a release, Mr. Van Saun will generally be:

entitled to receive a payment equal to two times the sum of his then base salary and Pension and Benefit Funding;

treated as a good leaver by reason of redundancy under the RBS Deferral Plan and the LTIP (vesting for LTIP awards will be set at two-thirds of face value) and, will not be subject to proration if he has completed five years of service to RBS (provided he has given at least six-months notice in the event of a voluntary termination of employment, the RBS board of directors does not determine that he committed any act warranting termination for cause and he does not commence employment with certain enumerated companies during the vesting period (which may be waived); and

subject to not being terminated by us for underperformance, entitled to a pro rata target incentive award under the applicable annual incentive plan in respect of the year in which such termination occurs.

The above payments are subject to the following conditions: (i) Mr. Van Saun has not been offered or accepted a position with the acquirer that is at least as equivalent to his position immediately prior to the sale; (ii) in our opinion, Mr. Van Saun has not materially underperformed against agreed-upon performance objectives and plans; (iii) circumstances do not exist that would warrant a termination of Mr. Van Saun by us or the acquirer for cause; and (iv) there has been no clawback triggered under RBS equity plans resulting in the reduction of Mr. Van Saun's awards.

Voluntary Termination Other Than for Good Reason

Mr. Van Saun can terminate his employment voluntarily (other than for good reason) at any time upon giving a six-months notice. We may, in our sole discretion, either place Mr. Van Saun on garden leave during such notice period (during which Mr. Van Saun will continue to receive his base salary and Pension and Benefit Funding) or pay him an amount equal to six months of his base salary in lieu of the notice period (to be paid in installments on regularly scheduled payroll dates and reduced to offset other income received during this period).

Following the date on which Mr. Van Saun completes five years of service with RBS, Mr. Van Saun will be treated as a good leaver by reason of redundancy under the RBS Deferral Plan and

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LTIP (but without any pro rata reduction), provided he has given at least six-months notice in the event of a voluntary termination of employment, the RBS board of directors does not determine that he committed any act warranting termination for cause and he does not commence employment with certain enumerated companies during the vesting period (which may be waived).

Termination due to Retirement, Death or Disability

Upon his termination of employment due to death or retirement, Mr. Van Saun or his estate will be entitled to, in each case, through the end of the month in which termination occurs:

his base salary; and

Pension and Benefit Funding.

Upon his termination due to disability, he will be entitled to receive the same payments except through the date on which he will first become eligible to receive payment of long-term disability benefits under our employee benefit plans as then in effect.

Termination for Cause

If Mr. Van Saun's employment is terminated for cause, Mr. Van Saun will receive his unpaid salary and Pension and Benefit Funding through his termination date and will not be entitled to any additional payments or benefits.

Restrictive Covenants

Mr. Van Saun is subject to a perpetual confidentiality covenant. During his employment and for a period of six months following termination from us other than for good reason (less any time spent on garden leave), Mr. Van Saun cannot hold a position as employee, director, officer, consultant, partner, agent or principal in certain enumerated companies deemed to be a competitor of RBS or us, without the prior consent of RBS and CFG. During his employment and for a period of 12 months following his termination of employment from us (less any time spent on garden leave), Mr. Van Saun also cannot solicit or hire employees of RBS or us or solicit any of our customers or prospective clients or persuade or attempt to persuade any such customers or clients to divert business from us.

Definitions

Cause generally means Mr. Van Saun's (i) willful material breach of any of his obligations under his employment agreement; (ii) in the opinion of RBS's board of directors, being guilty of gross misconduct which brings him or us or any other member of RBS into disrepute; (iii) dishonesty in the conduct of his duties; (iv) gross incompetence, willful neglect of duty or mismanagement of his financial affairs through failure to observe our rules and procedures for the operation of bank accounts and/or borrowing; (v) being found guilty of, or entering a plea of nolo contendere to, any felony or misdemeanor involving dishonesty; (vi) committing any act of bankruptcy or taking advantage of any statute for the time being in force offering relief to insolvent debtors; or (vii) being prohibited from acting as our officer or any other member of the RBS due to any default on his part.

Good reason generally means (i) material breach of Mr. Van Saun's employment agreement or (ii) a substantial diminution or other substantial adverse change not consented to by Mr. Van Saun, in the nature or scope of his base

salary or responsibilities, authorities, powers, functions or duties.

Offer Letters of Messrs. Fawcett, Matthews and Conner and Ms. Shanik

Each of Messrs. Fawcett, Matthews and Conner and Ms. Shanik have offer letters with us or one of our subsidiaries. These offer letters generally provide for the terms of each executive s

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compensation arrangement, including salary, eligibility to receive annual cash and equity incentive awards and vacation and eligibility for other health and welfare benefits.

Under the offer letters, each of the executives is subject to a notice period with regard to his or her intent to leave our or one of our subsidiaries employ for any reason (for Messrs. Fawcett and Matthews, 90 days; for Mr. Conner, 60 days; and for Ms. Shanik, 30 days). In addition, each of the offer letters contains non-solicitation of customers and employees covenants (for Mr. Fawcett, for 90 days following his termination of employment for wrongful conduct (as defined in his offer letter); for Mr. Matthews and Ms. Shanik, for 12 months following a termination of employment for any reason; and for Mr. Conner, for 12 months with respect to the non-solicitation of employees covenant and for six months with respect to the non-solicitation of customers covenant following his termination of employment for any reason). Mr. Fawcett's offer letter also includes a non-competition covenant that survives for 90 days following his termination of employment for wrongful conduct (as defined in his offer letter). In anticipation of the offering, we anticipate amending the offer letters of our NEOs to implement a consistent approach for notice periods and restrictive covenants.

In addition, for Mr. Matthews, if, within one year of a change in control (defined as the time when any person other than us or RBS or any of their affiliates becomes the owner of more than 50% of the voting power of our stock), Mr. Matthews's compensation is decreased or his title, level or responsibility are materially decreased, Mr. Matthews is entitled, upon giving notice of his resignation, to receive, within 90 days of his termination, (i) the cash equivalent of two years' base salary and (ii) the cost of any benefits he was receiving immediately prior to the time of such change in control (including any living expense allowances, if applicable). Ms. Shanik's offer letter originally provided for certain severance benefits if her employment was terminated by us other than for wrongful conduct (as defined in her offer letter) or serious underperformance within three years of the commencement of her employment with us. As of September 2013, the obligation to pay such severance benefits to Ms. Shanik has lapsed.

Table of Contents**Potential Payments Table**

The following table summarizes estimated payments, as provided for under our severance practice, our CEO's employment agreement and each of our other NEO's offer letters and the terms of their outstanding equity awards (as applicable), that would be made to our NEOs at, following or in connection with a termination of employment under various termination scenarios or a change in control, assuming such event occurred on December 31, 2013. For the summary of the material terms of the severance practice, our CEO's employment agreement and each of our other NEO's offer letters, see [Severance Practice](#) and [Employment Agreements/Offer Letters with our NEOs](#) above.

Amounts for Ellen Alemany are not included in the table below because she retired prior to December 31, 2013. Amounts which were paid or payable to her in connection with her retirement, along with the terms of her separation agreement, are described below under [Separation Agreement with Ellen Alemany](#) and are also included in the [All Other Compensation](#) column of the [2013 Summary Compensation Table](#) above.

	Voluntary Termination (\$)	Voluntary Termination with Good Reason (\$)	Not for Cause Termination (\$)	Change in Cause for Cause Termination (\$)	Change in Control Not for Cause Termination (\$)	Change in Control Only (No Related Termination) (\$)	Death (\$)	Disability (\$)	Retirement (\$)
Van Saun									
Payment	\$ (6)	\$ 4,712,330 ⁽⁷⁾	\$ 3,767,500 ⁽⁸⁾	\$ 6,176,818 ⁽⁹⁾	\$	\$	\$	\$ 944,830 ⁽¹⁰⁾	\$
Unvested Restricted Share Awards									
LTIP									
Benefits ⁽³⁾	7,391,083	7,391,083	7,391,083	6,098,424	7,391,083	12,131,829	7,391,083	7,391,083	7,391,083
Severance Payments ⁽⁴⁾		1,153	1,153	1,153					
		4,378	4,378	4,378					
	7,391,083	12,108,944	11,164,114	12,280,773	7,391,083	12,131,829	8,335,913	7,391,083	7,391,083
Fawcett									
Payment			350,000 ⁽¹¹⁾						
Unvested Restricted Share Awards									
LTIP									
Benefits ⁽³⁾	557,540	557,540	1,780,389	1,780,389	1,780,389	2,937,389	1,780,389	1,780,389	1,780,389
Severance Payments ⁽⁴⁾			1,190						
		4,378	4,378						
	557,540	557,540	2,135,957	1,780,389	1,780,389	2,937,389	1,780,389	1,780,389	1,780,389
D. Williams, Jr.									
Payment			375,000 ⁽¹¹⁾	1,770,386 ⁽¹²⁾					
Unvested Restricted Share Awards									
LTIP									
Benefits ⁽³⁾	623,290	623,290	1,823,442	1,823,442	1,823,442	3,117,259	1,823,442	1,823,442	1,823,442
Severance Payments ⁽⁴⁾			1,153						

ement s ⁽⁴⁾			4,378					
	623,290	623,290	2,203,973	3,593,828	1,823,442	3,117,259	1,823,442	1,823,442
L. Conner								
ayment			350,000 ⁽¹¹⁾					
d Share								
/LTIP								
⁽¹⁾⁽⁵⁾	623,290	623,290	1,656,240	1,656,240	1,656,240	2,766,425	1,656,240	1,656,240
Benefits ⁽³⁾			1,066					
ement s ⁽⁴⁾			4,378					
	623,290	623,290	2,011,684	1,656,240	1,656,240	2,766,425	1,656,240	1,656,240
L. Shanik								
ayment			287,500 ⁽¹¹⁾					
d Share								
/LTIP								
⁽¹⁾⁽⁵⁾	792,451	792,451	1,748,038	1,748,038	1,748,038	2,705,267	1,748,038	1,748,038
Benefits ⁽³⁾								
ement s ⁽⁴⁾			4,378					
	792,451	792,451	2,039,916	1,748,038	1,748,038	2,705,267	1,748,038	1,748,038

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(1) These amounts reflect the number of deferred share awards and LTIP awards (as described below and as applicable) outstanding as of December 31, 2013 and multiplied by £3.381 (the closing price on the London Stock Exchange for RBS shares as of December 31, 2013), and converted into U.S. dollars using an exchange rate of 1.6542 (which represented the exchange rate used for internal purposes by RBS as of December 31, 2013). The amounts in this row assume assessment by RemCo of the maximum level of performance for LTIP awards granted in 2012 and 2013 as of December 31, 2013 and reflect RemCo's actual holistic assessment for LTIP awards granted in 2011. For additional information, see Compensation Discussion and Analysis Components of Our Executive Compensation Program and Analysis Long-Term Incentive Awards above.

(2) Under the terms of his employment agreement, except in the event of a termination for cause (as defined in Mr. Van Saun's employment agreement), Mr. Van Saun will continue (i) to vest in his outstanding deferred share awards granted under the RBS Deferral Plan in accordance with the original vesting schedule, subject to not engaging in any competitive activity or detrimental activity (in each case, as defined in the RBS Deferral Plan) and (ii) to vest in his outstanding LTIP awards, subject to RemCo's holistic assessment of applicable performance guideposts and subject to proration based on the portion of the applicable vesting period during which he was employed, except in the event of his death (in which case there would be no proration).

In the event of our disposal (as defined in Mr. Van Saun's employment agreement) and Mr. Van Saun's termination by the applicable acquirer or his resignation in direct response to being assigned to a position in which the nature or scope of his responsibilities or authority is not reasonably regarded as equivalent to or more senior to his position at CFG immediately prior to such disposal, subject to his execution of a release (as defined in his employment agreement), his LTIP awards would be deemed vested at two-thirds of their face value.

Following September 8, 2014, the date Mr. Van Saun will have completed five years of service to RBS, Mr. Van Saun's LTIP awards will not be subject to proration (provided he has given at least six months notice in the event of a voluntary termination of employment, the RBS board of directors does not determine that he committed any act warranting a termination for cause and he does not commence employment with certain enumerated companies during the vesting period (which may be waived)). Since as of December 31, 2013, Mr. Van Saun would not have been eligible for this treatment, LTIP awards reflected in the table above are prorated.

(3) The amounts reflected above for this benefit reflect the cost of COBRA continuation coverage for one month under the plan in which the particular executive is enrolled, less the applicable active employee rate. For Mr. Van Saun, this benefit is provided under his employment agreement.

(4) Reflects the cost to us of providing outplacement services for 12 months under our outplacement policy.

(5) Under the terms of the RBS Deferral Plan, following an NEO's termination of employment for any reason (other than for cause (as defined in the RBS Deferral Plan), in which cases deferred share awards would be forfeited), each of these NEOs will continue to vest in his or her outstanding deferred share awards in accordance with the original vesting schedule as long as the NEO does not engage in any detrimental activity (as defined in the RBS Deferral Plan) in the case of termination of employment due to redundancy or both any competitive activity (as defined in the RBS Deferral Plan) and any detrimental activity in the case of any other termination of employment.

Under the terms of the LTIP, following an NEO's termination of employment due to (i) ill-health, injury or disability, (ii) retirement with our agreement, (iii) redundancy, (iv) NEO's employing entity ceasing to be a member of RBS (such as due to a change in control event), (v) the business in which the NEO works being transferred to a person which is not a member of RBS or (vi) any other reason, if and to the extent RemCo so decides in any particular case, each of these NEOs would continue to vest in his or her outstanding LTIP awards in accordance with the original vesting schedule, subject to RemCo's holistic assessment of applicable performance guideposts and, unless otherwise determined by RemCo or except in the event of the NEO's death, subject to proration based on the portion of the vesting period during which the NEO was employed by us.

(6) This assumes that we do not elect, in our discretion, to pay Mr. Van Saun six months of base salary and Pension and Benefits Funding in lieu of complying with the notice period under the terms of his employment agreement.

(7) This amount reflects the sum of (i) 18 months of base salary, (ii) six months of Pension and Benefits funding and (iii) a pro rata annual discretionary award based on target (175% of base salary under Mr. Van Saun's offer letter). Because the assumed termination date is December 31, 2013, the full target award is reflected.

(8) This amount reflects the sum of (i) 12 months of base salary and (ii) a pro rata annual discretionary award based on target (175% of base salary under Mr. Van Saun's offer letter). Because the assumed termination date is December 31, 2013, the full target award is reflected. This amount also assumes that we do not elect, in our discretion, to pay Mr. Van Saun six months of base salary and Pension and Benefits Funding in lieu of complying with the notice period under the terms of his employment agreement.

(9) This amount reflects the sum of (i) two times the sum of Mr. Van Saun's base salary and Pension and Benefits Funding and (ii) a pro rata annual discretionary award based on target (175% of base salary under Mr. Van Saun's offer letter). Because the assumed termination date is December 31, 2013, the full target award is reflected.

(10) This amount reflects six months of base salary and Pension and Benefits Funding, which will be paid to Mr. Van Saun prior to his receipt of long-term disability benefits under the terms of his employment agreement.

(11) This amount reflects 26 weeks of base salary, as provided for under our severance practice.

(12) This amount reflects two times Mr. Matthews's base salary (\$1.5 million) plus the cost of relocation and financial planning benefits received by Mr. Matthews during 2013 (\$270,386), as provided for under the terms of his offer letter.

Separation Agreement with Ellen Alemany

In connection with her retirement, effective as of September 30, 2013, we entered into a separation and release agreement with Ms. Alemany. Under the terms of her separation agreement: (i) Ms. Alemany received a lump sum payment equal to \$500,000, as compensation for providing consulting services to us upon request through the end of 2013; (ii) Ms. Alemany and her dependents are entitled to participate in a company self-funded retiree medical plan until Ms. Alemany reaches age 65, subject to Ms. Alemany's paying the full cost of premiums for that coverage; (iii) Ms. Alemany was eligible to be considered for a discretionary annual incentive award for the 2013 performance period, prorated 75% to reflect the portion of the performance year for which she was employed with us, paid in

accordance with the RBS Deferral Plan, and subject to the same terms and conditions of the RBS Deferral Plan as applied to other senior executives who are Code Staff of CFG, RBS or their respective affiliates; (iv) LTIP awards granted to Ms. Alemany in 2011 and 2012 continue to fully vest in accordance with their terms (without proration) (for a total of \$6,154,787); (v) LTIP awards granted to Ms. Alemany in 2013 continue to vest in accordance with their terms, subject to two-thirds proration

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based on the portion of the performance period deemed to have elapsed by September 30, 2013 (for a total of \$1,947,453); (vi) Ms. Alemany has been treated as a voluntary leaver under the RBS Deferral Plan so that all earned but unpaid deferred awards will be paid according to their original schedules (for a total of \$2,338,737). Ms. Alemany did not receive an annual incentive award for the 2013 performance year in light of overall challenges faced by RBS during 2013. Calculations for Ms. Alemany are based on the closing price on the London Stock Exchange for RBS shares on her date of retirement (£3.599) and an exchange rate of 1.6194, which was used for internal RBS purposes as of such date.

All of the above payments and benefits were subject to Ms. Alemany executing and not revoking a release of claims in our favor. In addition, any unvested RBS Deferral Plan awards remained subject to forfeiture if Ms. Alemany were to engage in any competitive activity (defined to include engaging in any activity with a competitor, accepting an offer of employment or engagement with a competitor or providing consulting services (with some exceptions) to any other financial institutions where such services relate to business activities that compete with us) or detrimental activity (as defined in the RBS Deferral Plan).

Ms. Alemany is also subject to a perpetual confidentiality covenant. In addition, for six months following her retirement, Ms. Alemany was restricted from competing with us or our affiliates and for 12 months following her retirement, she is restricted from soliciting, diverting or contacting any customers or vendors of ours or our affiliates, or soliciting or hiring any person who was employed by us or our affiliates.

Table of Contents**DIRECTOR COMPENSATION****2013 Director Compensation Table**

The following table lists the individuals who served as our non-employee directors during 2013 and summarizes their 2013 compensation. Directors who are also our employees are not compensated for their service on our Board of Directors.

Name	Fees Earned or Paid in Cash (\$)	All Other Compensation (\$)⁽²⁾	Total (\$)⁽³⁾
William P. Hankowsky	\$ 126,000	\$	\$ 126,000
Howard W. Hanna III	129,750 ⁽⁴⁾		129,750
Charles J. (Bud) Koch	149,500		149,500
Arthur F. Ryan	138,500	2,500	141,000
Judith M. Seldenek ⁽¹⁾	60,000		60,000
Shivan S. Subramaniam	114,000 ⁽⁵⁾	4,000	118,000
Wendy A. Watson	157,500 ⁽⁵⁾	5,149	162,649
Marita Zuraitis	126,000		126,000

(1) Ms. Seldenek resigned effective April 25, 2013.

(2) Amounts in this column reflect matching charitable contributions made by us on behalf of directors during 2013.

(3) As of December 31, 2013, none of our directors held any stock awards or options in respect of CFG or RBS stock.

(4) Mr. Hanna elected to defer \$64,500 of his board membership fees earned for 2013 pursuant to our Directors Deferred Compensation Plan. For a summary of material terms of the plan, see 2013 Director Compensation Program below.

(5) Each of Mr. Subramaniam and Ms. Watson elected to defer all of their board membership fees earned for 2013 pursuant to our Directors Deferred Compensation Plan. For a summary of material terms of the plan, see 2013 Director Compensation Program below.

2013 Director Compensation Program

During 2013, we paid each non-employee director an annual retainer of \$90,000. In addition, our lead director and the chair of each committee received an additional retainer of \$10,000. Each non-employee director was also paid \$1,500 for each board and committee meeting attended during 2013. Directors also receive reimbursement of business expenses incurred in connection with their attendance at meetings.

Directors may defer up to 100% of their meeting and retainer fees under our Directors Deferred Compensation Plan. No company contributions are made to this plan. Contributions to this plan are credited with interest on a monthly basis, based on the applicable interest crediting rate applicable for the month interest is to be posted. The interest crediting rate is the annualized average yield on the United States Treasury bond 10-year constant maturity for the immediately preceding calendar quarter plus two percent (2%), which is then divided by 12 to determine the monthly interest crediting rate. There are no above-market or preferential earnings on compensation deferred pursuant to this plan. In addition, our directors are eligible to receive matching charitable contributions up to \$5,000 per year, as part of our general charitable contribution program. Under our charitable contribution policy, we match charitable contributions dollar-for-dollar up to the maximum matching contribution. Our non-employee directors do not participate in our employee benefit programs.

New Director Compensation Program

In 2014, prior to this offering, our Board of Directors anticipates making changes to the directors' compensation program to ensure that directors' compensation is reflective of the additional duties involved with public company board membership and is within a reasonable range of our peer companies' director compensation programs. We expect our new director compensation program to include a cash retainer as well as an equity retainer. Additional details will be disclosed as the terms of our new director compensation program are finalized.

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**OUR RELATIONSHIP WITH THE RBS GROUP AND CERTAIN OTHER RELATED PARTY
TRANSACTIONS**

Relationship with the RBS Group

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. Following the offering, we expect that RBS will continue to beneficially own a majority of our outstanding common stock, and as a result RBS will continue to have significant control of our business, including pursuant to the agreements described below. See **Risk Factors** **Risks Related to Our Separation from the RBS Group**. In addition, we expect that, following this offering, the RBS Group will continue to consolidate our financial results in its financial statements.

In connection with this offering, 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. Of the agreements summarized below, the material agreements are filed as exhibits to the registration statement of which this prospectus is a part, and the summaries of these agreements set forth the terms of the agreements that we believe are material. These summaries are qualified in their entirety by reference to the full text of such agreements.

Separation and Stockholder Agreement

We intend to enter into the Separation Agreement with RBS immediately prior to the completion of this offering that will govern the relationship between the RBS Group and us following this offering.

Governance

The terms of the Separation Agreement will provide RBS with certain governance rights over us. In particular, for so long as RBS beneficially owns no less than % of our issued and outstanding capital stock, RBS will have the right to nominate one director to our Board, subject to election by our stockholders, and appoint two non-voting attendees to all Board discussions relating to . The Separation Agreement will also provide that, for so long as RBS beneficially owns shares representing % of our issued and outstanding capital stock, the following corporate actions will require the consent of RBS:

a change of control or, subject to certain exceptions, our merger or consolidation;

(i) the entrance into any joint venture, investment, recapitalization, reorganization or contract with any other person (in each case other than a wholly owned subsidiary of ours) or (ii) the acquisition of any securities or assets of another person (other than a wholly owned subsidiary of ours), in the case of any of the transactions set forth in clause (i) or (ii), whether in a single transaction or series of related transactions, with a value, or for a purchase price, in excess of a value greater than \$ million or % of our total assets or (iii) the exercise of any ownership rights in respect of any of the foregoing;

any transfer of our assets in any transaction or series of related transactions having a value greater than \$ million or % of our total assets;

the issuance of any capital stock, subject to certain exceptions including issuances pursuant to our approved equity incentive plans;

the guarantee, assumption, incurrence or refinancing of indebtedness for borrowed money by, or the pledge of, or granting of a security interest in, any of our assets in excess of \$ million in any twelve-month period, other than trade indebtedness incurred in the ordinary course of business; and

liquidation, dissolution or voluntary bankruptcy or similar extraordinary transactions.

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In addition, for so long as RBS beneficially owns shares representing % of our issued and outstanding capital stock, we will be required to obtain the consent of RBS to terminate our Chief Executive Officer or Chief Financial Officer, enter into certain related party transactions and take certain other corporate actions.

Covenants

We will agree to certain covenants, including regarding:

disclosure of information about our financial controls to RBS for so long as RBS ; and

delivery of quarterly and annual financial information to RBS for so long as RBS .

Indemnification

Generally, each party will indemnify, defend and hold harmless the other party and its subsidiaries (and each of their affiliates) and their respective officers, employees and agents from and against any and all losses relating to, arising out of or resulting from any breach by the indemnifying party or its subsidiaries of the Separation Agreement and the other agreements described in this section (unless such agreement provides for separate indemnification). The Separation Agreement also specifies procedures with respect to claims subject to indemnification.

Term

Following the completion of this offering, unless terminated by us and RBS, certain provisions of the Separation Agreement will survive indefinitely, although certain rights, including RBS's consent and governance rights, and obligations, including the covenants which we are subject, will terminate upon a reduction in RBS's beneficial ownership of our outstanding common stock.

Transitional Services Agreement

We intend to enter into a Transitional Services Agreement with RBS immediately prior to the completion of this offering for the continued provision of certain services, including certain information technology, operations, compliance, business continuity, legal, human resources, back office and web services. We refer to these services and resources, collectively, as the RBS services. The Transitional Services Agreement will also allow the RBS Group to continue to use certain of our services and resources. We refer to these services and resources, collectively, as the CFG services.

We will pay the RBS Group and the RBS Group will pay us mutually agreed upon fixed fees for the RBS services and the CFG Services, respectively. 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. We and RBS Group will agree to migration plans for each of the services being provided under the Transitional Services Agreement and have agreed to discuss in good faith the mitigation of any risks or issues relating to the migration of any of the services and to agree to mitigation plans.

Trademark License Agreement

We intend to enter into a trademark license agreement with RBS immediately prior to the completion of this offering that will grant us an exclusive limited license to use certain trademarks, including the daisywheel logo. The term of the license is for a period of 10 years, subject to partial earlier termination upon the occurrence of certain events, including the removal of the RBS brand name from all of our products and services by the time RBS ceases to hold at least 50% of our capital

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stock (but in no event earlier than October 1, 2015). Under the agreement, we will lose the right to use 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. Upon the _____ anniversary of the date of the trademark license agreement, we will be required to begin to pay RBS an annual license fee of \$ _____, subject to annual increase of _____ % to the extent we continue to use the licensed trademarks.

Registration Rights Agreement

We intend to enter into a Registration Rights Agreement with RBS immediately prior to the completion of this offering, pursuant to which we will agree that, upon the request of RBS, we will use our reasonable best efforts to effect the registration under applicable federal and state securities laws of any shares of our common stock beneficially owned by RBS following this offering.

Demand registration. RBS will be able to request registration under the Securities Act of all or any portion of our shares covered by the agreement and we will be obligated, subject to limited exceptions, to register such shares as requested by RBS. RBS will be able to request that we complete _____ demand registrations and _____ underwritten offerings in any twelve-month period subject to limitations on minimum offering size. RBS will be able to designate the terms of each offering effected pursuant to a demand registration, which may take any form, including a shelf registration.

Piggy-back registration. If we at any time intend to file on our behalf or on behalf of any of our other security holders a registration statement in connection with a public offering of any of our securities on a form and in a manner that would permit the registration for offer and sale of our common stock held by RBS, RBS will have the right to include its shares of our common stock in that offering.

Registration expenses. We will be generally responsible for all registration expenses in connection with the performance of our obligations under the registration rights provisions in the Registration Rights Agreement. RBS is responsible for its own internal fees and expenses, any applicable underwriting discounts or commissions and any stock transfer taxes.

Indemnification. Generally, the agreement will contain indemnification and contribution provisions by us for the benefit of RBS and, in limited situations, by RBS for the benefit of us with respect to the information provided by RBS included in any registration statement, prospectus or related document.

Transfer. If RBS transfers shares covered by the agreement, it will be able to transfer the benefits of the Registration Rights Agreement to transferees of _____ % of the shares of our common stock outstanding immediately following the completion of this offering, provided that each transferee agrees to be bound by the terms of the Registration Rights Agreement.

Term. The registration rights will remain in effect with respect to any shares covered by the agreement until:

such shares have been sold pursuant to an effective registration statement under the Securities Act;

such shares have been sold to the public pursuant to Rule 144 under the Securities Act; or

such shares have been sold in a transaction in which the transferee is not entitled to the benefits of the Registration Rights Agreement.

Table of Contents***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 our such agreements include the following.

Interest rate swaps and foreign currency products

We enter into interest rate swap agreements with the RBS Group for the purpose of reducing our exposure to interest rate fluctuations. As of December 31, 2013, the total notional amount of swaps outstanding was \$5.5 billion. Included in the balance were a notional amount of \$1.5 billion, which pay fixed rates ranging from 1.78% to 5.47% and receive overnight federal funds rate and one month LIBOR with maturities from 2014 through 2023. Also included in the balance were a notional amount of \$4.0 billion of receive-fixed swaps that had been executed as of June 30, 2013 as part of a new hedging program implemented during the quarter ended March 31, 2013. As of December 31, 2012, the total notional amount of swaps outstanding was \$4.2 billion, all of which pay fixed rates ranging from 2.94% to 5.47% and receive overnight federal funds rate with maturities from 2013 through 2016.

In order to meet the financing needs of our customers, we enter into interest rate swap and cap agreements with our customers and simultaneously enter into offsetting swap and cap agreements with the RBS Group. We earn a spread equal to the difference between rates charged to the customer and rates charged by the RBS Group. The notional amount of these interest rate swap and cap agreements outstanding with the RBS Group was \$13.4 billion and \$16.0 billion at December 31, 2013 and December 31, 2012, respectively.

Also, to meet the financing needs of our customers, we enter into a variety of foreign currency denominated products, such as loans, deposits and foreign exchange contracts. To manage the foreign exchange risk associated with these products, we enter into offsetting foreign exchange contracts with the RBS Group. We earn a spread equal to the difference between rates charged to the customer and rates charged by the RBS Group. The notional amount of foreign exchange contracts outstanding with the RBS Group was \$4.6 billion and \$3.4 billion at December 31, 2013 and December 31, 2012, respectively.

Other Commercial Matters

We have referral arrangements with the RBS Group in respect of certain commercial matters for which we intend to enter into a master referral agreement prior to the completion of this offering. We anticipate that the commercial matters to be included and the terms of such referrals will be consistent with historic periods. Our commercial referral arrangements relate to transactional services, debt capital markets, underwriting of loan syndications, commercial mortgage securitizations, asset finance and leasing and corporate credit card services. We also intend to enter into a referral arrangement with RBS related to cash management services offered by both RBS and us.

Other

On May 24, 2013, we redeemed \$289 million of floating rate junior subordinated deferrable interest debentures due March 4, 2034 from a special purpose subsidiary, which caused the redemption of \$280 million of our trust preferred securities from RBS.

On June 28, 2013, we entered into a purchase agreement with RBS pursuant to which we issued to RBS \$333,000,000 aggregate principal amount of 5.158% Fixed-to-Floating Callable Subordinated

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Notes due 2023 pursuant to Rule 144A under the Securities Act. The principal amount of this subordinated debt was equal to a special dividend paid to RBS on the same day. Together, these actions reduced our common equity without reducing total regulatory capital.

On September 30, 2013, we entered into a purchase agreement with RBS pursuant to which we issued to RBS \$333,000,000 aggregate principal amount of 4.771% Subordinated Notes due 2023 pursuant to Rule 144A under the Securities Act. The principal amount of this subordinated debt was equal to a special dividend paid to RBS on the same day. Together, these actions reduced our common equity without reducing total regulatory capital.

On December 2, 2013, we entered into a purchase agreement with RBS pursuant to which we issued to RBS \$334,000,000 aggregate principal amount of 4.691% Subordinated Notes due 2024 pursuant to Rule 144A under the Securities Act. The principal amount of this subordinated debt was equal to a special dividend paid to RBS on the same day. Together, these actions reduced our common equity without reducing total regulatory capital.

For further information regarding these and other capital actions taken during 2013, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Capital.

We also maintained a \$50 million revolving line of credit as of December 31, 2013 and 2012 with the RBS Group. This line of credit was not drawn upon as of December 31, 2013 or 2012, expired on January 31, 2014, and was not renewed.

We have issued a guarantee to the RBS Group for a fee, pursuant to which we will absorb credit losses related to the sale of option contracts by the RBS Group to our customers. There were outstanding option contracts with a notional value of \$2 million and \$222 million at December 31, 2013 and December 31, 2012, respectively.

We have made loans to directors and executive officers and their immediate families, as well as their affiliated companies. Such loans amounted to \$78 million and \$92 million at December 31, 2013 and 2012, respectively. The loans to such persons (i) complied with our Regulation O policies and procedures, (ii) were made in the ordinary course of business, (iii) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the lender, and (iv) did not involve more than a normal risk of collectability or did not present other features unfavorable to the Company.

Indemnification Agreements

We intend to enter into indemnification agreements with our directors and executive officers. These agreements will require us to indemnify these individuals to the fullest extent permitted by Delaware law against liabilities that may arise by reason of their service to us, and to advance expenses incurred as a result of any proceeding against them as to which they could be indemnified. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors or executive officers, we have been informed that in the opinion of the SEC such indemnification is against public policy and is therefore unenforceable.

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

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PRINCIPAL AND SELLING STOCKHOLDERS

Immediately following the offering, RBSG International Holdings Limited will own approximately % of our outstanding 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.

RBSG International Holdings Limited is selling shares of our common stock in this offering, assuming no exercise by the underwriters of their option to purchase additional shares. RBS CBFM North America Corporation is selling shares of our common stock in this offering.

The following table sets forth information regarding beneficial ownership of our common stock as of , 2014, by:

each person whom we know to own beneficially more than 5% of our common stock;

each of the directors and named executive officers individually; and

all directors and executive officers as a group.

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In accordance with the rules of the SEC, beneficial ownership includes voting or investment power with respect to securities and includes the shares issuable pursuant to stock options that are exercisable within 60 days of 2014. Shares issuable pursuant to stock options are deemed outstanding for computing the percentage of beneficial ownership of the person holding such options but are not outstanding for computing the percentage of beneficial ownership of any other person. The percentage of beneficial ownership for the following table is based on shares of common stock outstanding as of _____, 2014. Unless otherwise indicated, the address for each listed stockholder is: c/o Citizens Financial Group, Inc., One Citizens Plaza, Providence, RI, 02903. The address of the selling stockholders is c/o the Company Secretary, The Royal Bank of Scotland Group plc, PO Box 1000, RBS Gogarburn, Edinburgh EH12 1HQ. To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock owned by them.

Name of Beneficial Owner	Shares Beneficially Owned Before the Offering		Number of Shares Being Offered	Shares Beneficially Owned After the Offering ⁽¹⁾	
	Number	Percent	Number	Common Stock Beneficially Owned	Percent
Selling Stockholders					
RBSG International Holdings Limited ⁽²⁾					
RBS CBFM North America Corporation ⁽³⁾					
Directors and Officers					
Bruce Van Saun					
David Bowerman					
Mark Casady					
Brad L. Conner					
John Fawcett					
Nancy L. Shanik					
Robert D. Matthews, Jr.					
William P. Hankowsky					
Howard W. Hanna III					
Charles J. (Bud) Koch					
Arthur F. Ryan					
Shivan S. Subramaniam					
Wendy A. Watson					
Marita Zuraitis					
Directors and Officers as a group (13 persons)					

⁽¹⁾ Assumes no exercise of the underwriters' option to purchase additional shares. See Underwriting.

- (2) The shares are directly held by RBSG International Holdings Limited, a private limited company organized under the laws of the Scotland. RBSG International Holdings Limited is a wholly owned indirect subsidiary of RBS. RBS is a publicly owned company whose ordinary shares are traded on the London Stock Exchange and American Depositary Shares are traded on the New York Stock Exchange. The UK Government, through Her Majesty's Treasury (HM Treasury), is the ultimate controlling party of RBS and, as of May 30, 2014, held 63.16% of the voting rights in RBS and had an economic interest of 79.68%. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government.
- (3) The shares are directly held by RBS CBFM North America Corporation, a Delaware corporation. RBS CBFM North America Corporation is a wholly owned indirect subsidiary of RBS. See note (2) above for additional information regarding the beneficial ownership of RBS.

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DESCRIPTION OF CAPITAL STOCK

The following descriptions are summaries of the material terms of our amended and restated certificate of incorporation and amended and restated bylaws. Reference is made to the more detailed provisions of, and the descriptions are qualified in their entirety by reference to, the amended and restated certificate of incorporation and amended and restated bylaws, copies of which are filed with the SEC as exhibits to the registration statement of which this prospectus is a part, and applicable law.

General

Our authorized capital stock consists of _____ shares of common stock, par value \$0.01 per share.

Common Stock

Common stock outstanding. As of December 31, 2013, there were _____ shares of common stock outstanding which were held of record by two stockholders. All outstanding shares of common stock are fully paid and non-assessable, and the shares of common stock to be issued upon completion of this offering will be fully paid and non-assessable.

Voting rights. The holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders, except on matters relating solely to terms of preferred stock.

Dividend rights. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by our Board out of funds legally available therefor. See Dividend Policy.

Rights upon liquidation. In the event of liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding.

Other rights. The holders of our common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock.

Preferred Stock

Our Board has the authority to issue preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the stockholders. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of our company without further action by the stockholders and may adversely affect the voting and other rights of the holders of common stock.

Anti-Takeover Effects of Some Provisions

Some provisions of our amended and restated certificate of incorporation and amended and restated bylaws could make the following more difficult:

acquisition of control of us by means of a proxy contest or otherwise, or

removal of our incumbent officers and directors.

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These provisions, as well as our ability to issue preferred stock, are designed to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our Board. We believe that the benefits of increased protection give us the potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us, and that the benefits of this increased protection outweigh the disadvantages of discouraging those proposals, because negotiation of those proposals could result in an improvement of their terms.

Election and Removal of Directors. Our Board will consist of not less than five nor more than 25 directors, excluding any directors elected by holders of preferred stock pursuant to provisions applicable in the case of defaults. The exact number of directors will be fixed from time to time by resolution of our Board. Our Board will initially have members.

Our amended and restated certificate of incorporation and amended and restated bylaws will provide that directors may be removed, with or without cause, by an affirmative vote of shares representing a majority of the shares then entitled to vote at an election of directors. Any vacancy occurring on our Board and any newly created directorship may be filled only by a vote of a majority of the remaining directors in office.

Limits on Written Consents. Our amended and restated certificate of incorporation and amended and restated bylaws will provide that, upon RBS ceasing to beneficially own shares representing % of our issued and outstanding capital stock (the Triggering Event), stockholder action can be taken only at an annual or special meeting of stockholders and cannot be taken by written consent in lieu of a meeting.

Stockholder Meetings. Our amended and restated certificate of incorporation and amended and restated bylaws will also provide that, except as otherwise required by law, special meetings of the stockholders can only be called by the chairman of our Board or our chief executive officer, or pursuant to a resolution adopted by a majority of our Board or, until the Triggering Event, at the request of holders of a majority of the total voting power of our outstanding shares of common stock, voting together as a single class. Except as described above, stockholders are not permitted to call a special meeting or to require our Board to call a special meeting.

Super-Majority Approval Requirements. The Delaware General Corporation Law generally provides that the affirmative vote of the holders of a majority of the total voting power of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless either a corporation's certificate of incorporation or bylaws require a greater percentage. Our amended and restated certificate of incorporation and amended and restated bylaws will provide that, following the Triggering Event, the affirmative vote of holders of % of the total voting power of our outstanding common stock eligible to vote in the election of directors, voting together as a single class, will be required to amend, alter, change or repeal specified provisions, including those relating to actions by written consent of stockholders, calling of special meetings of stockholders, business combinations and amendment of our amended and restated certificate of incorporation and amended and restated bylaws. This requirement of a super-majority vote to approve amendments to our amended and restated certificate of incorporation and amended and restated bylaws could enable a minority of our stockholders to effectively exercise veto power over any such amendments.

Other Limitations on Stockholder Actions. Our amended and restated bylaws will also impose some procedural requirements on stockholders who wish to:

make nominations in the election of directors;

propose that a director be removed;

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propose any repeal or change in our amended and restated bylaws; or

propose any other business to be brought before an annual or special meeting of stockholders.

Under these procedural requirements, in order to bring a proposal before a meeting of stockholders, a stockholder must deliver timely notice of a proposal pertaining to a proper subject for presentation at the meeting to our corporate secretary along with the following:

a description of the business or nomination to be brought before the meeting and the reasons for conducting such business at the meeting;

the stockholder's name and address;

any material interest of the stockholder in the proposal;

the number of shares beneficially owned by the stockholder and evidence of such ownership; and

the names and addresses of all persons with whom the stockholder is acting in concert and a description of all arrangements and understandings with those persons, and the number of shares such persons beneficially own.

To be timely, a stockholder must generally deliver notice:

in connection with an annual meeting of stockholders, not less than _____ nor more than _____ days prior to the date on which the annual meeting of stockholders was held in the immediately preceding year, but in the event that the date of the annual meeting is more than _____ days before or more than _____ days after the anniversary date of the preceding annual meeting of stockholders, a stockholder notice will be timely if received by us not later than the close of business on the later of (1) the _____ day prior to the annual meeting and (2) the _____ day following the day on which we first publicly announce the date of the annual meeting; or

in connection with the election of a director at a special meeting of stockholders, not less than _____ nor more than _____ days prior to the date of the special meeting, but in the event that less than _____ days notice or prior public disclosure of the date of the special meeting of the stockholders is given or made to the stockholders, a stockholder notice will be timely if received by us not later than the close of business on the _____ day following the day on which a notice of the date of the special meeting was mailed to the stockholders or the public disclosure of that date was made.

In order to submit a nomination for our Board, a stockholder must also submit any information with respect to the nominee that we would be required to include in a proxy statement, as well as some other information. If a stockholder fails to follow the required procedures, the stockholder's proposal or nomination will be ineligible and will

not be voted on by our stockholders.

Dissenters Rights of Appraisal and Payment

Under the Delaware General Corporation Law, with certain exceptions, our stockholders will have appraisal rights in connection with a merger or consolidation of our company. Pursuant to the Delaware General Corporation Law, stockholders who properly request and perfect appraisal rights in connection with such merger or consolidation will have the right to receive payment of the fair value of their shares as determined by the Delaware Court of Chancery.

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Stockholders Derivative Actions

Under the Delaware General Corporation Law, any of our stockholders may bring an action in our name to procure a judgment in our favor, also known as a derivative action, provided that the stockholder bringing the action is a holder of our shares at the time of the transaction to which the action relates or such stockholder's stock thereafter devolved by operation of law.

Forum Selection

The Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of fiduciary duty owed by any director, officer or other employee of ours to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law or (iv) any action asserting a claim governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and consented to the foregoing forum selection provisions.

Conflicts of Interest

Delaware law permits corporations to adopt provisions renouncing any interest or expectancy in certain opportunities that are presented to the corporation or its officers, directors or stockholders. Our amended and restated certificate of incorporation will, to the maximum extent permitted from time to time by Delaware law, renounce any interest or expectancy that we have in, or right to be offered an opportunity to participate in, specified business opportunities that are from time to time presented to our officers, directors or stockholders or their respective affiliates, other than those officers, directors, stockholders or affiliates who are our or our subsidiaries' employees. 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. In addition, to the fullest extent permitted by law, in the event that RBS or any non-employee director acquires knowledge of a potential transaction or other business opportunity which may be a corporate opportunity for itself or himself or its or his affiliates or for us or our affiliates, such person will have no duty to communicate or offer such transaction or business opportunity to us or any of our affiliates and they may take any such opportunity for themselves or offer it to another person or entity. Our amended and restated certificate of incorporation will not renounce our interest in any business opportunity that is expressly offered to a non-employee director solely in his or her capacity as a director of CFG. To the fullest extent permitted by law, no business opportunity will be deemed to be a potential corporate opportunity for us unless we would be permitted to undertake the opportunity under our amended and restated certificate of incorporation, we have sufficient financial resources to undertake the opportunity and the opportunity would be in line with our business.

Limitation of Liability of Directors and Officers

Our amended and restated certificate of incorporation will provide that no director will be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except as required by applicable law, as in effect from time to time. Currently, Delaware law requires that liability be imposed for the following:

any breach of the director's duty of loyalty to our company or our stockholders;

any act or omission not in good faith or which involved intentional misconduct or a knowing violation of law;

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unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; and

any transaction from which the director derived an improper personal benefit.

As a result, neither we nor our stockholders have the right, through stockholders' derivative suits on our behalf, to recover monetary damages against a director for breach of fiduciary duty as a director, including breaches resulting from grossly negligent behavior, except in the situations described above.

Our amended and restated bylaws will provide that, to the fullest extent permitted by law, we will indemnify any officer or director of our company against all damages, claims and liabilities arising out of the fact that the person is or was our director or officer, or served any other enterprise at our request as a director, officer, employee, agent or fiduciary. We will reimburse the expenses, including attorneys' fees, incurred by a person indemnified by this provision when we receive an undertaking to repay such amounts if it is ultimately determined that the person is not entitled to be indemnified by us. Amending this provision will not reduce our indemnification obligations relating to actions taken before an amendment.

Indemnification Agreements

We intend to enter into an indemnification agreement with each of our directors and executive officers as described in Our Relationship with the RBS Group and Certain Other Related Party Transactions Indemnification Agreements. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors or executive officers, we have been informed that in the opinion of the SEC such indemnification is against public policy and is therefore unenforceable.

Listing

We intend to apply to list the common stock on _____ under the symbol CFG.

Transfer Agent and Registrar

The Transfer Agent and Registrar for the Common Stock is _____.

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MATERIAL U.S. FEDERAL TAX CONSIDERATIONS

The following is a general discussion of the material U.S. federal income and estate tax consequences of the ownership and disposition of our common stock by a beneficial owner that is a non-U.S. holder purchasing our common stock in this offering, other than a non-U.S. holder that owns or has owned, actually or constructively, more than 5% of our common stock. For purposes of this discussion, a non-U.S. holder is a person or entity that, for U.S. federal income tax purposes, is a:

nonresident alien individual, other than certain former citizens and residents of the United States subject to tax as expatriates;

a corporation (or other entity taxable as a corporation) not created or organized in the United States or under the laws of the United States or of any state therein (or the District of Columbia); or

an estate or trust, other than an estate or trust the income of which is subject to U.S. federal income tax regardless of its source.

If an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes owns our common stock, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships owning our common stock and partners in such partnerships are urged to consult their tax advisors as to the particular U.S. federal income tax consequences of owning and disposing of our common stock.

This discussion is based on the Internal Revenue Code of 1986, as amended (the Code), and administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations as of the date hereof, changes to any of which subsequent to the date of this prospectus may affect the tax consequences described herein. This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to a non-U.S. holder in light of its particular circumstances and does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction, nor does it address the tax consequences to special classes of investors including, but not limited to, tax-exempt organizations, controlled foreign corporations, passive foreign investment companies, corporations that accumulate earnings to avoid U.S. federal income tax, insurance companies, banks or other financial institutions, dealers in securities, persons liable for the alternative minimum tax, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, persons who have acquired our common stock as compensation or otherwise in connection with the performance of services, or persons that will own our common stock as a position in a straddle, conversion transaction or other risk reduction transaction. Prospective holders are urged to consult their tax advisors with respect to the particular tax consequences to them of owning and disposing of our common stock, including the consequences under the laws of any state, local or foreign jurisdiction.

Dividends

Any dividends we pay with respect to our common stock (see Dividend Policy) will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Any dividend paid to a non-U.S. holder of our common stock generally will be subject to withholding tax at a 30% rate or a reduced rate specified by an applicable income tax treaty. In order to obtain a reduced rate of withholding, a non-U.S. holder will be required to provide proper certification of its eligibility

for such reduced rate.

If dividends paid to a non-U.S. holder are effectively connected with the non-U.S. holder's conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, are

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attributable to a permanent establishment or fixed base maintained by the non-U.S. holder in the United States), the non-U.S. holder will not be subject to U.S. withholding tax if the non-U.S. holder complies with applicable certification and disclosure requirements. Instead, the non-U.S. holder will generally be taxed with respect to the receipt of dividends paid on our common stock in the same manner as if the non-U.S. holder were a resident of the United States. A non-U.S. corporation receiving effectively connected dividends may also be subject to an additional branch profits tax imposed at a rate of 30% (or a lower rate specified in an applicable tax treaty).

Gain on Disposition of Our Common Stock

A non-U.S. holder generally will not be subject to U.S. federal income tax on gain realized upon the sale or other disposition of our common stock unless:

the gain is effectively connected with a trade or business of the non-U.S. holder within the United States (and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment or fixed base of such non-U.S. holder);

the non-U.S. holder is a nonresident alien individual and is present in the United States for 183 days or more in the taxable year of disposition and certain other conditions are met; or

we are or have been a United States real property holding corporation for U.S. federal income tax purposes at any time within the five-year period preceding the disposition or the non-U.S. holder's holding period, whichever period is shorter, and our common stock has ceased to be traded on an established securities market prior to the beginning of the calendar year in which the sale or disposition occurs. We believe we are not, and do not anticipate becoming, a United States real property holding corporation.

If a non-U.S. holder is engaged in a trade or business in the United States and gain recognized by the non-U.S. holder on a sale or other disposition of our common stock is effectively connected with a conduct of such trade or business and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base, the non-U.S. holder will generally be taxed with respect to such gain in the same manner as a U.S. person. Such non-U.S. holders are urged to consult their own tax advisors with respect to the U.S. tax consequences of the ownership and disposition of our common stock, including the possible imposition of a branch profits tax at a rate of 30% (or lower rate specified in an applicable tax treaty).

Information Reporting Requirements and Backup Withholding

Information returns will be filed with the Internal Revenue Service in connection with payments of dividends on our common stock. Unless the non-U.S. holder complies with certification procedures to establish that it is not a U.S. person, information returns may be filed with the Internal Revenue Service in connection with the proceeds from a sale or other disposition of our common stock and the non-U.S. holder may be subject to U.S. backup withholding on dividend payments on our common stock or on the proceeds from a sale or other disposition of our common stock. The amount of any backup withholding from a payment to a non-U.S. holder will be allowed as a credit against such holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

FATCA Withholding Tax

Legislation enacted in 2010 (commonly known as FATCA) generally imposes withholding at a rate of 30% on certain payments to certain foreign entities (including financial intermediaries), after December 31, 2012 (subject to certain transition rules), of dividends on and the gross proceeds of dispositions of U.S. common stock, unless various U.S. information reporting and due diligence

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requirements (generally relating to ownership by U.S. persons of interests in or accounts with those entities) have been satisfied. Current Treasury regulations implementing this withholding tax will defer the withholding obligation until July 1, 2014 for payments of dividends on common stock of a U.S. issuer and until January 1, 2017 for gross proceeds from dispositions of common stock of a U.S. issuer. Non-U.S. holders should consult their tax advisors regarding the possible implications of this legislation on their investment in our common stock.

Federal Estate Tax

The estates of nonresident alien individuals generally are subject to U.S. federal estate tax on property with a U.S. situs. Because we are a U.S. corporation, our common stock will be U.S. situs property and therefore will be includible in the U.S. taxable estate of a nonresident alien decedent who owns or possesses certain powers or interests in our common stock (including through certain trusts), unless an applicable estate tax treaty provides otherwise.

Table of Contents**SHARES ELIGIBLE FOR FUTURE SALE**

Prior to this offering, there has been no market for our common stock. Future sales of substantial amounts of our common stock in the public market could adversely affect market prices prevailing from time to time. Furthermore, because only a limited number of shares will be available for sale shortly after this offering due to existing contractual and legal restrictions on resale as described below, there may be sales of substantial amounts of our common stock in the public market after the restrictions lapse. This may adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of this offering, we will have _____ shares of common stock outstanding, assuming no exercise of any options and warrants outstanding as of _____, 2014. Of these shares, the _____ shares, or _____ shares if the underwriters exercise their over-allotment option in full, sold in this offering will be freely transferable without restriction or registration under the Securities Act of 1933, as amended (the "Securities Act"), except for any shares purchased by one of our existing affiliates, as that term is defined in Rule 144 under the Securities Act. The remaining _____ shares, or _____ shares if the underwriters exercise their overallotment option in full, of common stock outstanding are restricted shares as defined in Rule 144. Restricted shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144. As a result of the contractual 180-day lock-up period described below and the provisions of Rule 144, these shares will be available for sale in the public market as follows:

Number of Shares (or _____ shares if the underwriters exercise their overallotment option in full)	Date
(or _____ shares if the underwriters exercise their overallotment option in full)	On the date of this prospectus.
(or _____ shares if the underwriters exercise their overallotment option in full)	After 90 days from the date of this prospectus.
(or _____ shares if the underwriters exercise their overallotment option in full)	After 180 days from the date of this prospectus (generally subject to volume limitations).

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. See Risk Factors Risks Related to our Common Stock Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale, and RBS has committed to sell its remaining beneficial ownership of our common stock, although the timing of such sale or sales remains uncertain.

Rule 144

In general, a person who has beneficially owned restricted shares of our common stock for at least six months would be entitled to sell such securities, provided that (i) such person is not deemed to have been one of our affiliates at the time of, or at any time during the 90 days preceding, a sale and (ii) we are subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale. Persons who have beneficially owned restricted shares of our common stock for at least six months but who are our affiliates at the time of, or any time during the 90 days preceding, a sale, would be subject to additional restrictions, by which such person would be entitled to sell within any

three-month period only a number of securities that does not exceed the greater of the following:

1% of the number of shares of our common stock then outstanding, which will equal approximately shares immediately after this offering; or

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the average weekly trading volume of our common stock on the NYSE during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale; provided, in each case, that we are subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale. Such sales both by affiliates and by non-affiliates must also comply with the manner of sale, current public information and notice provisions of Rule 144 to the extent applicable.

Registration Rights

Upon completion of this offering, subject to the lock-up agreements described below, the holders of _____ shares of common stock (or _____ shares of common stock if the underwriters' over-allotment option is exercised in full) and _____ shares of common stock issuable upon the exercise of outstanding options and warrants or their transferees, will be entitled to various rights with respect to the registration of these shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration, except for shares purchased by affiliates.

Equity Awards

As of _____, 2014, a total of _____ shares of common stock underlying performance-based restricted stock units were outstanding. _____ of the shares subject to such restricted stock units are subject to lock-up agreements. An additional _____ shares of common stock are available for future equity grants under our stock plans.

Upon completion of this offering, we intend to file a registration statement on Form S-8 under the Securities Act covering all shares of common stock subject to outstanding restricted stock units and deferred shares or issuable pursuant to our stock plans. Subject to Rule 144 volume limitations applicable to affiliates, shares registered under this registration statement will be available for sale in the open market, beginning 90 days after the date of the prospectus, except to the extent that the shares are subject to vesting restrictions with us or the contractual restrictions described below.

Lock-up Agreements

All of our directors, officers and the holders of substantially all of our common stock have agreed, subject to certain customary exceptions, not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock for a period of 180 days after the date of this prospectus, without the prior written consent of _____. See Underwriting.

Table of Contents**UNDERWRITING**

Under the terms and subject to the conditions in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. LLC, Goldman, Sachs & Co. and J.P. Morgan Securities LLC are acting as representatives, have severally agreed to purchase, and the selling stockholders have agreed to sell to them, severally, the number of shares indicated below:

Name	Number of Shares
Morgan Stanley & Co. LLC	
Goldman, Sachs & Co.	
J.P. Morgan Securities LLC	

Total:

The underwriters and the representatives are collectively referred to as the underwriters and the representatives, respectively. The underwriters are offering the shares of common stock subject to their acceptance of the shares from the selling stockholders and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option to purchase additional shares described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the offering price listed on the cover page of this prospectus and part to certain dealers. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part. Sales of shares of common stock made outside the United States may be made by affiliates of the underwriters.

The selling stockholders have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to _____ additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to the underwriter's name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table.

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The following table shows the per share and total public offering price, underwriting discounts and commissions, and proceeds before expenses to the selling stockholders. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional shares of common stock.

	Per Share	No Exercise	Total Full Exercise
Public offering price	\$	\$	\$
Underwriting discounts and commissions to be paid by the selling stockholders			
Proceeds, before expenses, to selling stockholders	\$	\$	\$

The estimated offering expenses payable by us are approximately \$. We have agreed to reimburse the underwriters for certain expenses relating to clearance of this offering with the Financial Industry Regulatory Authority up to \$.

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed 5% of the total number of shares of common stock offered by them.

Our common stock has been approved for on the under the trading symbol CFG .

We and all directors and officers and the holders of substantially all of our outstanding stock and stock options have agreed that, subject to certain customary exceptions, without the prior written consent of on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of this prospectus (the restricted period):

offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock;

file any registration statement with the Securities and Exchange Commission relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or

enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock, whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. In addition, we and each such other person agrees that, without the prior written consent of on behalf of the underwriters, we or such other person will not, during the restricted period, make any demand for, or exercise any right with respect to, the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock.

The restricted period described in the preceding paragraph will be extended if:

during the last 17 days of the restricted period we issue an earnings release or material news or a material news event relating to us occurs, or

prior to the expiration of the restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the restricted period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

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, in its sole discretion, may release the common stock and other securities subject to the lock-up agreements described above in whole or in part at any time, with or without notice.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering. As an additional means of facilitating this offering, the underwriters may bid for, and purchase, shares of common stock in the open market to stabilize the price of the common stock. These activities may raise or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriters are not required to engage in these activities and may end any of these activities at any time.

We, the selling stockholders, RBS and the several underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

A prospectus in electronic format may be made available on websites maintained by one or more underwriters, or selling group members, if any, participating in this offering. The representatives may agree to allocate a number of shares of common stock to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters that may make Internet distributions on the same basis as other allocations.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses.

In addition, in the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve our securities and instruments. The underwriters and their respective affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

Pricing of the Offering

Prior to this offering, there has been no public market for our common stock. The initial public offering price was determined by negotiations between the selling stockholders and the representatives. Among the factors considered in determining the initial public offering price were our

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future prospects and those of our industry in general, our revenues, earnings and certain other financial and operating information in recent periods, and the price-earnings ratios, market prices of securities, and certain financial and operating information of companies engaged in activities similar to ours.

Selling Restrictions

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the securities offered by this prospectus in any jurisdiction where action for that purpose is required. The securities offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such securities be distributed or published, in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State) an offer to the public of any shares of our common stock may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any shares of our common stock may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares of our common stock shall result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer to the public in relation to any shares of our common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares of our common stock to be offered so as to enable an investor to decide to purchase any shares of our common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

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United Kingdom

Each underwriter has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (FSMA)) received by it in connection with the issue or sale of the shares of our common stock in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares of our common stock in, from or otherwise involving the United Kingdom.

Hong Kong

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person

pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

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Japan

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term, as used in this prospectus means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

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VALIDITY OF COMMON STOCK

The validity of the shares of common stock offered hereby will be passed upon for us by Davis Polk & Wardwell LLP, New York, New York, and by Cleary Gottlieb Steen & Hamilton LLP, for the underwriters.

EXPERTS

The financial statements included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing in this prospectus. Such financial statements are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the common stock offered hereby. This prospectus, which is part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. For further information, we refer you to the registration statement and the exhibits and schedules filed as part of the registration statement. If a document has been filed as an exhibit to the registration statement, we refer you to the copy of the document that has been filed. A copy of the registration statement, including the exhibits and schedules thereto, may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that site is www.sec.gov.

As a result of the offering, we will become subject to the full informational requirements of the Exchange Act. We will fulfill our obligations with respect to such requirements by filing periodic reports and other information with the SEC. We intend to furnish our stockholders with annual reports containing audited consolidated financial statements certified by an independent public accounting firm. We also maintain an Internet site at www.citizensbank.com. Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into this prospectus or the registration statement of which it forms a part.

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Table of Contents**CITIZENS FINANCIAL GROUP, INC.****GLOSSARY OF ACRONYMS AND TERMS****GLOSSARY OF ACRONYMS AND TERMS**

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

AFS	Available For Sale
ALLL	Allowance for Loan and Lease Losses
AOCI	Accumulated Other Comprehensive Income
ATM	Automatic Teller Machine
BHC	Bank Holding Company
bps	Basis Points
Capital Plan Rule	Federal Reserve's Regulation Y Capital Plan Rule
CCAR	Comprehensive Capital Analysis and Review
CCB	Capital Conservation Buffer
CEB	Commercial Enterprise Banking
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
Citizens or CFG or the Company	Citizens Financial Group, Inc. and its Subsidiaries
CLTV	Combined Loan-to-Value
CMO	Collateralized Mortgage Obligation
CRA	Community Reinvestment Act of 1977
CSA	Credit Support Annex
Dodd-Frank Act (DFA)	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EC	Economic Capital
EPS	Earnings Per Share
ERISA	Employee Retirement Income Security Act of 1974
ESOP	Executive Share Option Plan
Fannie Mae (FNMA)	The Federal National Mortgage Association
FASB	The Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
FFIEC	Federal Financial Institutions Examination Council
FHC	Financial Holding Company
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation (credit rating)
FLSA	Fair Labor Standards Act of 1938, as amended
FRB	Federal Reserve Bank
FRBG	Federal Reserve Board of Governors
Freddie Mac (FHLMC)	The Federal Home Loan Mortgage Corporation
FTP	Funds Transfer Pricing

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GAAP	Accounting Principles Generally Accepted in the United States of America
GDP	Gross Domestic Product
Ginnie Mae (GNMA)	The Government National Mortgage Association
GLBA	Gramm-Leach-Bliley Act of 1999
HELOC	Home Equity Line of Credit
HTM	Held To Maturity
ICAR	Internal Capital Adequacy Requirement
IFRS	International Financial Reporting Standards
ILP	Incurred Loss Period
IST	Integrated Stress Testing
IT	Information Technology
LIBOR	London Interbank Offered Rate
LOB	Line of Business
LTV	Loan-to-Value
MBS	Mortgage-Backed Security
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operation
MERS	Mortgage Electronic Registration Systems, Inc.
MSR	Mortgage Servicing Right
NPR	Notice of Proposed Rulemaking
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income
OIS	Overnight Index Swap
OTC	Over the Counter
PIMCO	Pacific Investment Management Company, LLC
RBS	The Royal Bank of Scotland plc.
RBS CBFM	The Royal Bank of Scotland plc. Corporate Banking and Financial Markets
RBSG or RBS Group	The Royal Bank of Scotland Group plc.
REIT	Real Estate Investment Trust
ROTCE	Return on Average Tangible Common Equity
RPA	Risk Participation Agreement
RV	Recreational Vehicle
SBO	Serviced by Others
SIFI	Systematically Important Financial Institutions
TDR	Troubled Debt Restructuring
UK	United Kingdom

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Citizens Financial Group, Inc.

Providence, Rhode Island

We have audited the accompanying consolidated balance sheets of Citizens Financial Group, Inc. and its subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations, other comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Citizens Financial Group, Inc. and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

March 12, 2014 (except for notes 24, 25, 26, and 27, as to which the date is May 12, 2014)

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****CONSOLIDATED BALANCE SHEETS**

	December 31, 2013	December 31, 2012
	(in millions, except share data)	
ASSETS:		
Cash and due from banks (related party balances of \$0 and \$193, respectively)	\$ 2,757	\$ 3,063
Interest-bearing deposits in banks	233	126
Federal funds sold and securities purchased under resale agreements		1,100
Securities available for sale, at fair value	15,995	18,356
Securities held to maturity (estimated fair value of \$4,257 and \$0, respectively)	4,315	
Other investment securities	935	1,061
Loans held for sale, at fair value	176	624
Other loans held for sale	1,078	22
Loans and leases	85,859	87,248
Less: Allowance for loan and lease losses	1,221	1,255
Net loans and leases	84,638	85,993
Derivative assets (related party balances of \$0 and \$8, respectively)	650	1,155
Premises and equipment, net	592	643
Bank-owned life insurance	1,339	1,299
Goodwill	6,876	11,311
Due from broker	446	4
Other branch assets held for sale	46	
Other assets (related party balances of \$63 and \$20, respectively)	2,078	2,296
TOTAL ASSETS	\$ 122,154	\$ 127,053
LIABILITIES AND STOCKHOLDERS EQUITY:		
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 24,931	\$ 25,931
Interest-bearing (related party balances of \$5 and \$7, respectively)	61,972	69,217
Total deposits	86,903	95,148
Deposits held for sale	5,277	
Federal funds purchased and securities sold under agreements to repurchase	4,791	3,601
Other short-term borrowed funds	2,251	501
Derivative liabilities (related party balances of \$835 and \$1,224, respectively)	939	1,318
Deferred taxes, net	199	446
	1,405	694

Long-term borrowed funds (related party balances of \$1,000 and \$289, respectively)

Other liabilities (related party balances of \$27 and \$90, respectively)	1,193	1,216
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TOTAL LIABILITIES	102,958	102,924
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Commitments and contingent liabilities (refer to Note 16)

STOCKHOLDERS EQUITY:

Preferred stock:

\$1.00 par value, 30,000 shares authorized, no shares outstanding at December 31, 2013 and 2012, and liquidation value per share of \$100,000

Common stock:

\$.01 par value, 5,000 shares authorized, 3,382 shares issued and outstanding at December 31, 2013 and 2012

Additional paid-in capital	18,609	18,595
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Retained earnings	1,235	5,846
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Accumulated other comprehensive loss	(648)	(312)
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TOTAL STOCKHOLDERS EQUITY	19,196	24,129
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TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 122,154	\$ 127,053
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The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2013	2012	2011
	(in millions, except share data)		
INTEREST INCOME:			
Interest and fees on loans and leases (related party balance of \$56 in 2013)	\$ 3,001	\$ 3,205	\$ 3,434
Interest and fees on loans held for sale	12	17	13
Investment securities (related party balance of \$(1) in 2011)	477	620	750
Interest-bearing deposits in banks (related party balance of \$1 in 2011)	11	4	7
Total interest income	3,501	3,846	4,204
INTEREST EXPENSE:			
Deposits (related party balances of \$15, \$104 and \$182, respectively)	216	375	490
Federal funds purchased and securities sold under agreement to repurchase (related party balances of \$184, \$117 and \$187, respectively)	192	119	191
Other short-term borrowed funds (related party balances of \$3, \$90 and \$88, respectively)	4	101	150
Long-term borrowed funds (related party balances of \$16, \$9 and \$67, respectively)	31	24	53
Total interest expense	443	619	884
Net interest income	3,058	3,227	3,320
Provision for credit losses	479	413	882
Net interest income after provision for credit losses	2,579	2,814	2,438
NONINTEREST INCOME:			
Service charges and fees (related party balances of \$15, \$23 and \$22, respectively)	640	704	742
Card fees	234	249	344
Mortgage banking fees	153	189	62
Trust and investment services fees	149	131	131
Securities gains and losses	144	95	162
Foreign exchange and trade finance fees (related party balances of \$(15), \$(9) and \$1, respectively)	97	105	114
Capital markets fees (related party balances of \$14, \$7 and \$6, respectively)	53	52	40

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Bank-owned life insurance income	50	51	49
Other-than-temporary impairment:			
Total other-than-temporary impairment losses	(49)	(84)	(189)
Portions of loss recognized in other comprehensive income (before taxes)	41	60	170
Net impairment losses recognized in earnings	(8)	(24)	(19)
Other income (related party balances of \$(32), \$(285) and \$(690), respectively)	120	115	86
Total noninterest income	1,632	1,667	1,711
NONINTEREST EXPENSE:			
Salaries and employee benefits	1,652	1,743	1,623
Outside services	360	339	340
Occupancy (related party balances of \$3, \$2 and \$3, respectively)	327	310	372
Equipment expense	275	279	301
Amortization of software	102	77	53
Goodwill impairment	4,435		
Other operating expense	528	709	682
Total noninterest expense	7,679	3,457	3,371
Income before income tax (benefit) expense	(3,468)	1,024	778
Income tax (benefit) expense	(42)	381	272
NET (LOSS) INCOME	\$ (3,426)	\$ 643	\$ 506
Weighted-average number of shares outstanding:			
Basic	3,382	3,382	3,382
Diluted	3,382	3,382	3,382
Earnings per (common) share:			
Basic	\$ (1,013,131.98)	\$ 190,245.51	\$ 149,548.13
Diluted	(1,013,131.98)	190,245.51	149,548.13
Dividends declared and paid to parent	350,384.39	44,352.45	

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

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS)**

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Net (loss) income	\$ (3,426)	\$ 643	\$ 506
Other comprehensive income (loss):			
Net unrealized derivative instrument gains (losses) arising during the period, net of income taxes of \$(100), \$(15), and \$(64), respectively	(172)	(26)	(112)
Reclassification adjustment for net derivative (gains) losses included in net income, net of income taxes of \$66, \$123, and \$188, respectively	114	212	328
Net unrealized securities (losses) gains arising during the period, net of income taxes of \$(165), \$80, and \$163, respectively	(285)	138	286
Other than temporary impairment not recognized in earnings on securities, net of income taxes of \$(15), \$(22), and \$(62), respectively	(26)	(38)	(108)
Reclassification of net securities gains to net income, net of income taxes of \$(50), \$(26), and \$(52), respectively	(86)	(45)	(90)
Defined benefit pension plans:			
Actuarial gain (loss), net of taxes of \$66, \$(63), and \$(92), respectively	110	(107)	(150)
Amortization of actuarial loss, net of taxes of \$5, \$14, and \$8, respectively	9	24	12
Settlement/curtailment, net of taxes of \$0, \$34, and \$0, respectively		58	(3)
Total other comprehensive (loss) income, net of income taxes	(336)	216	163
Total comprehensive (loss) income	\$ (3,762)	\$ 859	\$ 669

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

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CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (in millions)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2011	\$	\$	\$ 18,538	\$ 4,847	\$ (691)	\$ 22,694
Capital contribution			30			30
Total comprehensive income:						
Net income				506		506
Other comprehensive income					163	163
Total comprehensive income						669
Balance at December 31, 2011			18,568	5,353	(528)	23,393
Dividend to parent				(150)		(150)
Capital contribution			27			27
Total comprehensive income:						
Net income				643		643
Other comprehensive income					216	216
Total comprehensive income						859
Balance at December 31, 2012			18,595	5,846	(312)	24,129
Dividends to parent				(185)		(185)
Dividends to parent exchange transactions				(1,000)		(1,000)
Capital contribution			14			14
Total comprehensive income:						
Net loss				(3,426)		(3,426)
Other comprehensive loss					(336)	(336)
Total comprehensive income						(3,762)
Balance at December 31, 2013	\$	\$	\$ 18,609	\$ 1,235	\$ (648)	\$ 19,196

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

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
OPERATING ACTIVITIES			
Net (loss) income	\$ (3,426)	\$ 643	\$ 506
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	479	413	882
Originations of mortgage loans held for sale	(3,781)	(5,496)	(3,823)
Proceeds from sales of mortgage loans held for sale	4,229	5,436	3,975
Amortization of terminated cash flow hedges (related party balances of \$69, \$74 and \$84, respectively)	73	97	139
Depreciation, amortization and accretion	404	467	434
(Recovery) impairment of mortgage servicing rights	(47)	12	42
Securities impairment	8	24	19
Goodwill impairment	4,435		
Gain on other investment securities		(3)	(9)
Deferred income taxes	(53)	306	252
Loss on disposal / impairment of premises and equipment	16	11	8
(Gain) loss on sales of:			
Securities available for sale	(144)	(93)	(162)
Other investment securities		(63)	
Subsidiary			(7)
Premises and equipment			(2)
Other assets		24	
Decrease (increase) in other assets (related party balances of \$(35), \$(24) and \$1, respectively)	827	76	(164)
(Decrease) increase in other liabilities (related party balances of \$(452), \$(323) and \$70, respectively)	(371)	(140)	389
Net cash provided by operating activities	2,649	1,714	2,479
INVESTING ACTIVITIES			
Investment securities:			
Purchases of securities available for sale	(10,999)	(5,532)	(13,749)
Proceeds from maturities and paydowns of securities available for sale	4,708	6,667	6,639
Proceeds from sales of securities available for sale	3,645	2,724	5,077
Purchases of other investment securities	(1)	(1)	(33)
Proceeds from sales of other investment securities	127	204	93
Purchases of securities held to maturity	(224)		
Proceeds from maturities and paydowns of securities held to maturity	22		
Net decrease (increase) in interest-bearing deposits in banks	993	(995)	(68)

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Net decrease in cash collateral			1,485
Net increase in loans and leases	(341)	(1,432)	(1,072)
Net increase in bank-owned life insurance	(40)	(42)	(43)
Net cash payments for divestiture activities		(309)	
Premises and equipment:			
Purchases	(160)	(178)	(106)
Proceeds from sales	25	6	5
Purchases of software	(208)	(193)	(262)
Net cash (used in) provided by investing activities	(2,453)	919	(2,034)
FINANCING ACTIVITIES			
Net (decrease) increase in deposits	(2,968)	2,584	733
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	1,190	(551)	(960)
Net change in other short-term borrowed funds	1,750	(2,599)	1,662
Proceeds from long-term borrowed funds (related party balance of \$1,000 in 2013)	1,002	337	9
Repayments of long-term borrowed funds (related party balances of \$280, \$216 and \$0, respectively)	(291)	(2,885)	(3,113)
Dividends declared and paid to parent	(1,185)	(150)	
Net cash used in financing activities	(502)	(3,264)	(1,669)
Decrease in cash and cash equivalents	(306)	(631)	(1,224)
Cash and cash equivalents at beginning of year	3,063	3,694	4,918
Cash and cash equivalents at end of year	\$ 2,757	\$ 3,063	\$ 3,694

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

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CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Citizens Financial Group, Inc. (formerly RBS Citizens Financial Group, Inc., effective April 16, 2014) conform to GAAP. The Company is a wholly-owned subsidiary of The Royal Bank of Scotland plc, a banking subsidiary of the ultimate parent, The Royal Bank of Scotland Group plc. On December 1, 2008, the UK Government became the ultimate controlling party of RBSG. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government. The Company's principal business activity is banking, conducted through its subsidiaries Citizens Bank, N.A. (formerly RBS Citizens, N.A., effective April 16, 2014) and Citizens Bank of Pennsylvania.

Following is a summary of the significant accounting policies of the Company:

Basis of Presentation

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the provision for credit losses, evaluation and measurement of impairment of goodwill, evaluation of unrealized losses on securities for other-than-temporary impairment, accounting for income taxes, the valuation of AFS and HTM securities, and derivatives.

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash and cash equivalents includes cash and due from banks.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks are carried at cost and include deposits that mature within one year.

Securities

Investments in debt and equity securities are carried in four portfolios: AFS, HTM, trading account assets and other investment securities. Management determines the appropriate classification at the time of purchase.

Securities in the AFS portfolio will be held for indefinite periods of time and may be sold in response to changes in interest rates, changes in prepayment risk, or other factors in managing the Company's asset / liability strategy. Gains and losses on the sales of securities are recognized in earnings and are computed using the specific identification method. Security impairments (i.e., declines in the fair value of securities below cost) that are considered by

management to be other-

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Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

than-temporary are recognized in earnings as realized losses. However, the determination of the impairment amount is dependent on the Company's intent to sell (or not sell) the security. If the Company intends to sell the impaired security, the impairment loss recognized in current period earnings equals the difference between the instrument's fair value and amortized cost. If the Company does not intend to sell the impaired security, and it is not likely that the Company will be required to sell the impaired security, the credit-related impairment loss is recognized in current period earnings and equals the difference between the amortized cost of the security and the present value of the expected cash flows that have currently been projected.

Securities AFS are carried at fair value, with unrealized gains and losses reported in OCI as a separate component of stockholders' equity, net of taxes. Premiums and discounts on debt securities are amortized or accreted using a level-yield method over the estimated lives of the individual securities. The Company uses actual prepayment experience and estimates of future prepayments to determine the constant effective yield necessary to apply the interest method of income recognition. Estimates of future prepayments are based on the underlying collateral characteristics of each security and are derived from market sources. Judgment is involved in making determinations about prepayment expectations and in changing those expectations in response to changes in interest rates and macroeconomic conditions. The amortization of premiums and discounts associated with mortgage-backed securities may be significantly impacted by changes in prepayment assumptions.

Securities are classified as HTM because the Company has the ability and intent to hold the securities to maturity. Transfers of debt securities into the HTM category from the AFS category are made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer is retained in OCI and in the carrying value of the HTM securities. Such amounts are amortized over the remaining life of the security. The securities are reported at cost and adjusted for amortization of premium and accretion of discount. Interest income is recorded on the accrual basis adjusted for the amortization of premium and the accretion of discount.

Trading account assets are comprised of debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading account assets, and are carried at fair value. Realized and unrealized gains and losses on such assets are reported in noninterest income in the Consolidated Statements of Operations. Trading account assets are reported in other assets in the Consolidated Balance Sheets.

Other investment securities are comprised mainly of FHLB stock and FRB stock, which are carried at cost; and venture capital investments, which are carried at fair value, with changes in fair value recognized in noninterest income. For securities that are not publicly traded, estimates of fair value are made based upon review of the investee's financial results, condition and prospects. Other investment securities, which are carried at cost, are reviewed at least annually for impairment, with valuation adjustments recognized in noninterest income.

Loans and Leases

Loans are reported at the amount of their outstanding principal, net of charge-offs, unearned income, deferred loan origination fees and costs, and unamortized premiums or discounts (on purchased loans). Deferred loan origination fees and costs and purchase discounts and premiums are amortized as an adjustment of yield over the life of the loan, using the level-yield interest method. Unamortized amounts remaining upon prepayment or sale are recorded as

interest income or gain (loss) on sale, respectively. Credit card receivables include billed and uncollected interest and fees.

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CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases are classified at the inception of the lease. Lease receivables, including leveraged leases, are reported at the aggregate of lease payments receivable and estimated residual values, net of unearned and deferred income, including unamortized investment credits. Lease residual values are reviewed at least annually for other-than-temporary impairment, with valuation adjustments recognized currently against noninterest income. Leveraged leases are reported net of non-recourse debt. Unearned income is recognized to yield a level rate of return on the net investment in the leases.

Loans and leases are disclosed in portfolio segments and classes. The Company's loan and lease portfolio segments are commercial and retail. The classes of loans and leases are: commercial, commercial real estate, leases, residential (includes residential mortgages and home equity loans and lines of credit), home equity products serviced by others (includes certain purchased home equity loans and lines of credit), other secured retail (includes automobile loans and other installment loans), and unsecured retail (includes student loans and credit card).

Loans held for sale are carried at the lower of cost or fair value. Loans accounted for under the fair value option are carried at fair value.

Allowance for Credit Losses

Management's estimate of probable losses in the Company's loan and lease portfolios is recorded in the ALLL and the reserve for unfunded lending commitments. The Company evaluates the adequacy of the ALLL by performing reviews of certain individual loans and leases, analyzing changes in the composition, size and delinquency of the portfolio, reviewing previous loss experience, and considering current and anticipated economic factors. The ALLL is established in accordance with the Company's credit reserve policies, as approved by the Audit Committee of the Board of Directors. The Chief Financial Officer and Chief Risk Officer review the adequacy of the ALLL each quarter, together with risk management. The ALLL is maintained at a level that management considers to be adequate based on the results of this evaluation, and is established through charges to earnings in the form of a provision for credit losses. Amounts determined to be uncollectible are deducted from the allowance and subsequent recoveries, if any, are added to the allowance. While management uses available information to estimate loan and lease losses, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for credit losses.

For non-impaired commercial and commercial real estate loans, the Company estimates the appropriate level of the ALLL by applying expected loss rates to existing loans with similar risk characteristics. Probable losses for commercial and commercial real estate loans are determined using a model that utilizes the probability of default, loss given default, and exposure at default on an individual loan basis. These factors consider the internal risk rating, loan tenor, and weighted-average life.

For non-impaired retail loans, the ALLL is based upon the appropriate selection of either (a) losses estimated using delinquency roll rate models or (b) an expected loss model utilizing the probability of default, loss given default, and exposure at default on an individual loan basis. When developing these factors, the Company may consider the loan product and collateral type, LTV ratio, lien position, borrower's credit, time outstanding, geographic location,

delinquency status, and loss emergence period. Certain retail portfolios, including SBO home equity loans, student loans, and commercial credit card receivables utilize roll rate models exclusively to estimate the ALLL. Selection of the appropriate use of delinquency roll rate or expected loss models by product is determined quarterly.

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CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The ALLL may be adjusted to reflect the Company's current assessment of various qualitative risks, factors and events that may not be measured in the statistical analysis. Such factors include trends in economic conditions, loan growth, back testing results, base versus stress losses, credit underwriting policy exceptions, regulatory and audit findings, and peer comparisons.

In addition to the ALLL, the Company also estimates probable credit losses associated with off balance sheet financial instruments such as standby letters of credit, financial guarantees and binding unfunded loan commitments. Off balance sheet financial instruments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk rating scale. These risk classifications, in conjunction with historical loss experience, economic conditions and performance trends within specific portfolio segments, result in the estimate of the reserve for unfunded lending commitments.

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

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

Nonperforming Loans and Leases

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

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loan collectible. A loan may be returned to accrual status if (1) principal and interest payments have been brought current, and the Company expects repayment of the remaining contractual principal and interest, (2) the loan or lease has otherwise become well-secured and in the process of collection, or (3) the borrower has been making regularly scheduled payments in full for the prior six months and it is reasonably assured that the loan or lease will be brought fully current within a reasonable period. Cash receipts on nonaccruing loans and leases are generally applied to reduce the unpaid principal balance.

Residential mortgages are generally placed on nonaccrual status when past due 120 days, or sooner if determined to be collateral-dependent. Residential mortgages are returned to accrual status when principal and interest payments become less than 120 days past due and when future payments are reasonably assured. Credit card balances (included in the unsecured retail class of loans) are placed on nonaccrual status when past due 90 days or more. Credit card balances are restored to accruing status if they subsequently become less than 90 days past due. Guaranteed student loans (included in the unsecured class of loans) are not placed on nonaccrual status.

All other retail loans are generally placed on nonaccrual status when past due 90 days or more, or earlier if management believes that the probability of collection is insufficient to warrant further accrual. Loans less than 90 days past due may be placed on nonaccrual status upon the death of the borrower, surrender or repossession of collateral, fraud or bankruptcy. Loans are generally returned to accrual status if the loan becomes less than 15 days past due. Cash receipts on nonaccruing loans and leases are generally applied to reduce the unpaid principal balance. Certain TDRs that are current in payment status are classified as nonaccrual in accordance with regulatory guidance. Income on these loans is generally recognized on a cash basis if management believes that the remaining book value of the loan is realizable. Nonaccruing TDRs that meet the guidelines above for accrual status can be returned to accruing if supported by a well documented evaluation of the borrowers financial condition, and if they have been current for at least 6 months.

Impaired Loans

A loan is considered to be impaired when it is probable that the Company will be unable to collect all of the contractual interest and principal payments as scheduled in the loan agreement. Impaired loans include nonaccruing larger balance (greater than \$3 million carrying value), non-homogenous commercial and commercial real estate loans, and restructured loans that are deemed TDRs. A loan modification is identified as a TDR when the Company, or bankruptcy court, grants the borrower a concession the Company would not otherwise make in response to the borrower's financial difficulties. Concessions granted in TDRs for all classes of loans may include lowering the interest rate, forgiving a portion of principal, extending the loan term, lowering scheduled payments for a specified period of time, principal forbearance, or capitalizing past due amounts. A rate increase can be a concession if the increased rate is lower than a market rate for debt with risk similar to that of the restructured loan. Additionally, TDRs for commercial loans may also involve creating a multiple note structure, accepting non-cash assets, accepting an equity interest, or receiving a performance-based fee. In some cases a TDR may involve multiple concessions. The financial effects of TDRs for all loan classes may include lower income (either due to a lower interest rate or a delay in the timing of cash flows), larger loan loss provisions, and accelerated charge-offs if the modification renders the loan collateral-dependent. In some cases interest income throughout the term of the loan may increase if, for example, the loan is extended or the interest rate is increased as a result of the restructuring. Loans are classified as TDRs until

paid off, sold, or refinanced at market terms.

Impairment evaluations are performed at the individual loan level, and consider expected future cash flows from the loan, including, if appropriate, the realizable value of collateral. Impaired loans

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which are not TDRs are nonaccruing, and loans involved in TDRs may be accruing or nonaccruing. Retail loans that were discharged in bankruptcy and not reaffirmed by the customer are deemed to be collateral-dependent TDRs and are charged off to the fair value of the collateral, less cost to sell, and less amounts recoverable under a government guarantee (if any). Cash receipts on nonaccruing impaired loans, including nonaccruing loans involved in TDRs, are generally applied to reduce the unpaid principal balance. Certain TDRs that are current in payment status are classified as nonaccrual in accordance with regulatory guidance. Income on the loans is generally recognized on a cash basis if management believes that the remaining book value of the loan is realizable.

Loans are generally restored to accrual status when principal and interest payments are brought current and when future payments are reasonably assured, following a sustained period of repayment performance by the borrower in accordance with the loan's contractual terms.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization have been computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the life of the lease (including renewal options if exercise of those options is reasonably assured) or their estimated useful life, whichever is shorter.

Additions to property, plant and equipment are recorded at cost. The cost of major additions, improvements and betterments is capitalized. Normal repairs and maintenance and other costs that do not improve the property, extend the useful life or otherwise do not meet capitalization criteria are charged to expense as incurred. The Company evaluates premises and equipment for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable.

Software

Costs related to computer software, developed or obtained for internal use, are capitalized if the projects improve functionality and provide long-term future operational benefits. Capitalized costs are amortized using the straight-line method over the asset's expected useful life and is based upon the basic pattern of consumption and economic benefits provided by the asset. The Company begins to amortize the software when the asset (or identifiable component of the asset) is substantially complete and ready for its intended use. All other costs incurred in connection with an internal-use software project are expensed as incurred. Capitalized software is included in other assets on the Consolidated Balance Sheets.

Fair Value

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

A portion of the Company's assets and liabilities is carried at fair value, including AFS securities, private equity investments, and derivative instruments. In addition, the Company elects to account for

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its residential mortgages held for sale at fair value. The Company classifies its assets and liabilities that are carried at fair value in accordance with the three-level valuation hierarchy:

Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar instruments; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by market data for substantially the full term of the asset or liability.

Level 3. Unobservable inputs that are supported by little or no market information and that are significant to the fair value measurement.

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

The Company reviews and updates the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs in fair value measurements may result in a reclassification between the fair value hierarchy levels and are recognized based on period-end balances.

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

Goodwill

Goodwill is the purchase premium associated with the acquisition of a business. It is assigned to reporting units at the date the goodwill is initially recorded. A reporting unit is a business operating segment or a component of a business operating segment. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

Goodwill is not amortized, but is subject to annual impairment tests. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is deemed to be not impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment.

The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangible assets as if the reporting unit were being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the

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excess. An impairment loss that is recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

In September 2013, the Company changed its annual goodwill impairment test date from September 30 to October 31. The Company reviews goodwill for impairment annually as of October 31, or more often if events or circumstances indicate that it is more likely than not that the fair value of one or more reporting units is below its carrying value. The fair values of the Company's reporting units are determined using a combination of income and market-based approaches. The Company relies on the income approach (discounted cash flow method) for determining fair value. Market and transaction approaches are used as benchmarks only to corroborate the value determined by the discounted cash flow method. The Company relies on several assumptions when estimating the fair value of its reporting units using the discounted cash flow method. These assumptions include the current discount rate, as well as projected loan loss, income tax and capital retention rates.

Discount rates are estimated based on the Capital Asset Pricing Model, which considers the risk-free interest rate, market risk premium, beta, and unsystematic risk and size premium adjustments specific to a particular reporting unit. The discount rates are also calibrated on the assessment of the risks related to the projected cash flows of each reporting unit. Cash flow projections include estimates for projected loan loss, income tax and capital retention rates. Multi-year financial forecasts are developed for each reporting unit by considering several key business drivers such as new business initiatives, customer retention standards, market share changes, anticipated loan and deposit growth, forward interest rates, historical performance, and industry and economic trends, among other considerations. The long-term growth rate used in determining the terminal value of each reporting unit was estimated based on management's assessment of the minimum expected terminal growth rate of each reporting unit, as well as broader economic considerations such as GDP and inflation.

The Company based its fair value estimates on assumptions it believes to be representative of assumptions that a market participant would use in valuing the reporting unit but that are unpredictable and inherently uncertain, including estimates of future growth rates and operating margins and assumptions about the overall economic climate and the competitive environment for its reporting units. There can be no assurances that future estimates and assumptions made for purposes of goodwill testing will prove accurate predictions of the future. If the assumptions regarding business plans, competitive environments or anticipated growth rates are not achieved, the Company may be required to record goodwill impairment charges in future periods.

Bank-Owned Life Insurance

Bank-owned life insurance is stated at its cash surrender value. The Company is the beneficiary of life insurance policies on current and former officers and selected employees of the Company.

Employee Benefits

Pension costs under defined benefit plans are actuarially computed and include current service costs and amortization of prior service costs over the participants' average future working lifetime. The actuarial cost method used in determining the net periodic pension cost is the projected unit credit method. The cost of postretirement and

postemployment benefits other than pensions is recognized on an accrual basis during the periods employees provide services to earn those benefits.

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The Company is party to a variety of derivative transactions, including interest rate swap contracts, interest rate options, foreign exchange contracts, residential loan commitment rate locks, forward sale contracts, warrants and purchase options. The Company enters into contracts in order to meet the financing needs of its customers. The Company also enters into contracts as a means of reducing its interest rate and foreign currency risks, and these contracts are designated as hedges when acquired, based on management's intent. The Company monitors the results of each transaction to ensure that management's intent is satisfied.

All derivatives, whether designated for hedging relationships or not, are recognized in the Consolidated Balance Sheets at fair value. If a derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in AOCI, a component of stockholders' equity. The ineffective portions of cash flow hedges are immediately recognized as an adjustment to income or expense. For cash flow hedging relationships that have been discontinued, balances in OCI are reclassified to interest expense in the periods during which the hedged item affects income. If it is probable that the hedged forecasted transaction will not occur, balances in OCI are reclassified immediately to income. Changes in the fair value of derivatives that do not qualify as hedges are recognized immediately in earnings.

Derivative assets and derivative liabilities governed by master netting agreements are netted by the counterparty on the balance sheet, and this netted derivative asset or liability position is also netted against the fair value of any cash collateral that has been pledged or received in accordance with a CSA.

Transfers and Servicing of Financial Assets

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

Mortgage Banking

Mortgage loans held for sale are accounted for at fair value on an individual loan basis. Changes in the fair value, and realized gains and losses on the sales of mortgage loans, are reported in mortgage banking income.

The fair value of MSR is determined based on expected future cash flows discounted at an interest rate commensurate with the servicing risks involved. MSR is presented in the Consolidated Balance Sheets net of accumulated amortization, which is recorded in proportion to, and over the period of, net servicing income. The Company's identification of MSR in a single class was determined based on the availability of market inputs and the Company's method of managing MSR risks. For the purpose of evaluating impairment, MSR is stratified based on predominant risk characteristics (such as interest rate, loan size, origination date, term, or geographic location) of the underlying loans. An allowance is then established in the event the recorded value of an individual stratum exceeds

fair value.

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The Company determines the fair value of MSRs using a model that calculates the present value of estimated net future servicing income. The model utilizes assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, default rates, cost to service, discount rate, escrow earnings, contractual servicing fee income, and ancillary income. The discount rate is the required rate of return investors in the market would expect for an asset of similar risk.

The Company accounts for derivatives in its mortgage banking operations at fair value on the balance sheet as derivative assets or derivative liabilities, depending on whether the derivative had a positive (asset) or negative (liability) fair value as of the balance sheet date. The Company's mortgage banking derivatives include commitments to originate mortgages held for sale, certain loan sale agreements, and other financial instruments that meet the definition of a derivative.

Income Taxes

The Company uses an asset and liability (balance sheet) approach for financial accounting and reporting of income taxes. This results in two components of income tax expense: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the current period. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. These gross deferred tax assets and liabilities represent decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences in the bases of assets and liabilities, as measured by tax laws, and their bases, as reported in the Consolidated Financial Statements.

Deferred tax assets are recognized for net operating loss carryforwards and tax credit carryforwards. Valuation allowances are recorded as necessary to reduce deferred tax assets to the amounts that management concludes are more likely than not to be realized.

The Company also assesses the probability that the positions taken, or expected to be taken, in its income tax returns will be sustained by taxing authorities. A more likely than not (more than 50 percent) recognition threshold must be met before a tax benefit can be recognized. Tax positions that are more likely than not to be sustained are reflected in the Company's Consolidated Financial Statements.

Tax positions are measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The difference between the benefit recognized for a position and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest income on loans and securities classified as AFS or HTM is determined using the effective interest method. This method calculates periodic interest income at a constant effective yield on the net investment in the loan or

security, to provide a constant rate of return over the terms of the financial assets. Securities classified as trading account assets, and other financial assets accounted for using the fair value option, are measured at fair value with corresponding changes recognized in noninterest income.

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

Other types of noninterest revenues, such as service charges on deposits, interchange income on credit cards and trust revenues, are accrued and recognized into income as services are provided and the amount of fees earned are reasonably determinable.

Earnings Per Share

Basic EPS is computed by dividing net income / (loss) available to common shareholders by the weighted-average number of common shares outstanding during each period. Net income / (loss) available to common shareholders represents net income after preferred stock dividends, accretion of the discount on preferred stock issuances, gains or losses from any repurchases of preferred stock, and dividends. Diluted EPS is computed by dividing net income / (loss) available to common shareholders by the weighted-average number of common shares outstanding during each period, plus potential dilutive shares such as call options, share-based payment awards, and warrants using the treasury method.

New Accounting Pronouncements

In January 2014, the FASB issued Accounting Standards Update No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. This amendment clarifies that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendment require disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. This amendment is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014, and is expected to have an immaterial impact on the Company's Consolidated Financial Statements.

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

periods within those annual periods, beginning after December 15, 2014, and is expected to have an immaterial impact on the Company's Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reclassifications of Prior Year Amounts

Certain reclassifications were made to the prior year Financial Statements to conform to the 2013 presentation. Significant reclassifications are as follows:

The Company reclassified student loans from the secured retail loan class to the other unsecured retail loan class.

The Company reclassified the 2012 \$75 million gain related to the sale of its Visa Inc. Class B shares from Net Gains on Securities Available for Sale to Other Net Gains on the Consolidated Statements of Operations.

The Company reclassified software amortization from equipment expense to amortization of software on the Consolidated Statements of Operations. The software balance from 2012 was reclassified from Premises and Equipment to Other Assets in the Consolidated Balance Sheets.

NOTE 2 CASH AND DUE FROM BANKS

The Company's subsidiary banks maintain certain average reserve balances and compensating balances for check clearing and other services with the FRB. At December 31, 2013 and 2012, the balance of deposits at the FRB amounted to \$1.4 billion. Average balances maintained with the FRB during the years ended December 31, 2013, 2012, and 2011 exceeded amounts required by law for the FRB's requirements. All amounts, both required and excess reserves, held at the FRB currently earn interest at a fixed rate of 25 basis points. As a result, the Company recorded, in interest-bearing deposits in banks, interest income on FRB deposits of \$5 million, \$3 million, and \$5 million in 2013, 2012, and 2011, respectively.

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 3 SECURITIES**

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

	December 31, 2013				December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities								
U.S. Treasury	\$ 15	\$	\$	\$ 15	\$ 15	\$	\$	\$ 15
State and political subdivisions	11		(1)	10	20	1		21
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	14,970	151	(128)	14,993	16,368	537	(1)	16,904
Other / non-agency	992	5	(45)	952	1,452	13	(68)	1,397
Total mortgage-backed securities	15,962	156	(173)	15,945	17,820	550	(69)	18,301
Total debt securities	15,988	156	(174)	15,970	17,855	551	(69)	18,337
Marketable equity securities	10	3		13	5	2		7
Other equity securities	12			12	12			12
Total equity securities	22	3		25	17	2		19
Total available-for-sale securities	\$ 16,010	\$ 159	\$ (174)	\$ 15,995	\$ 17,872	\$ 553	\$ (69)	\$ 18,356
Held to Maturity Securities								
Mortgage-backed securities:								
	\$ 2,940	\$	\$ (33)	\$ 2,907	\$	\$	\$	\$

Federal agencies and U.S. government sponsored entities								
Other / non-agency	1,375		(25)	1,350				

Total held to maturity securities	\$ 4,315	\$	\$ (58)	\$ 4,257	\$	\$	\$	\$
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Other Investment**Securities**

Federal Reserve Bank stock	\$ 462	\$	\$	\$ 462	\$ 490	\$	\$	\$ 490
Federal Home Loan Bank stock	468			468	565			565
Venture capital and other investments	5			5	6			6

Total other investment securities	\$ 935	\$	\$	\$ 935	\$ 1,061	\$	\$	\$ 1,061
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During 2013, to reduce the growing potential negative impact of AFS securities market volatility on tangible common equity, the Company transferred a total of \$4.2 billion, consisting of federal agency and other non-agency MBS from the AFS securities portfolio to establish the HTM securities portfolio. At the time of transfer, \$134 million of unrealized net losses were recognized in OCI. The amounts in OCI will be recognized in interest income over the remaining life of the securities as an offset to the adjustment of yield in a manner consistent with the amortization of premium and the accretion of discount, resulting in no impact on net income.

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The Company has reviewed its securities portfolio for other-than-temporary impairments. The following tables summarize those securities whose fair values are below carrying values, segregated by those that have been in a continuous unrealized loss position for less than twelve months, and those that have been in a continuous unrealized loss position for twelve months or longer:

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

	Less than 12 Months			December 31, 2012 12 Months or Longer			Total		
	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses
(dollars in millions)									
Mortgage-backed securities:									
Federal agencies and U.S. government sponsored entities	29	\$ 139	\$ (1)	1	\$ 3	\$	30	\$ 142	\$ (1)
Other / non-agency	2	53	(1)	29	854	(67)	31	907	(68)
Total	31	\$ 192	\$ (2)	30	\$ 857	\$ (67)	61	\$ 1,049	\$ (69)

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

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

In addition to these cash flow projections, several other characteristics of each security are reviewed when determining whether a credit loss exists and the period over which the debt security is

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expected to recover. These characteristics include: (1) the type of investment, (2) various market factors affecting the fair value of the security (e.g., interest rates, spread levels, liquidity in the sector, etc.), (3) the length and severity of impairment, and (4) the public credit rating of the instrument.

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

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

	December 31, 2013	December 31, 2012 (in millions)	December 31, 2011
Cumulative balance through January 1	\$ 55	\$ 38	\$ 24
Credit impairments recognized in earnings on securities not previously impaired		1	1
Credit impairments recognized in earnings on securities that have been previously impaired	8	23	18
Reductions due to increases in cash flow expectations on impaired securities	(7)	(7)	(5)
Cumulative balance through December 31	\$ 56	\$ 55	\$ 38

Cumulative credit losses recognized in earnings for impaired AFS debt securities held as of December 31, 2013, 2012, and 2011 were \$56 million, \$55 million, and \$38 million, respectively. There were no credit losses recognized in earnings for the Company's HTM portfolio as of December 31, 2013 and 2012. The Company recognized \$8 million, \$24 million, and \$19 million of credit related other-than-temporary impairment losses in earnings for the years ended December 31, 2013, 2012, and 2011, respectively, related to non-agency MBS in the AFS portfolio. No impaired debt securities were sold during 2013, 2012, or 2011. Reductions in credit losses due to increases in cash flow expectations were \$7 million for the years ended December 31, 2013 and 2012, and \$5 million for the year ended December 31, 2011, and are presented in investment securities interest income on the Consolidated Statements of Operations. The Company does not currently have the intent to sell these securities, and it is not likely that the Company will be required to sell these securities prior to the recovery of their amortized cost bases. As of December 31, 2013, 2012, and 2011, \$41 million, \$60 million, and \$170 million, respectively, of pretax non-credit related losses were deferred in OCI.

The Company has determined that credit losses are not expected to be incurred on the remaining agency and non-agency MBS identified with unrealized losses as of the current reporting date. The unrealized losses on these

investment securities reflect the reduced liquidity in the MBS market and the increased risk spreads due to the uncertainty of the U.S. macroeconomic environment. Therefore, the Company has determined that these securities are not other-than-temporarily impaired because the Company does not currently have the intent to sell these securities, and it is not likely that the Company will be required to sell these securities prior to the recovery of their amortized cost bases. Additionally, any subsequent increases in the valuation of impaired securities do not impact their recorded cost bases.

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CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost and fair value of debt securities at December 31, 2013 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Distribution of Maturities				Total
	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	
Amortized Cost:					
Available-for-sale debt securities					
U.S. Treasury	\$ 15	\$	\$	\$	\$ 15
State and political subdivisions				11	11
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities		39	2,865	12,066	14,970
Other / non-agency		43	120	829	992
Total available-for-sale debt securities	15	82	2,985	12,906	15,988
Held to maturity debt securities					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities				2,940	2,940
Other / non-agency				1,375	1,375
Total held to maturity debt securities				4,315	4,315
Total debt securities	\$ 15	\$ 82	\$ 2,985	\$ 17,221	\$ 20,303
Fair Value:					
Available-for-sale debt securities					
U.S. Treasury	\$ 15	\$	\$	\$	\$ 15
State and political subdivisions				10	10
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities		41	2,853	12,099	14,993
Other / non-agency		43	123	786	952
Total available-for-sale debt securities	15	84	2,976	12,895	15,970

Held to maturity debt securities

Mortgage-backed securities:

Federal agencies and U.S. government sponsored
entities

2,907 2,907

Other / non-agency

1,350 1,350

Total held to maturity debt securities

4,257 4,257

Total debt securities

\$ 15 \$ 84 \$ 2,976 \$ 17,152 \$ 20,227

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Amount of interest income from taxable and non-taxable investment securities are shown below:

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Taxable	\$ 488	\$ 622	\$ 755
Non-taxable		2	2
Total interest income from investment securities	\$ 488	\$ 624	\$ 757

Realized gains and losses on AFS securities are shown below:

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Gains on sale of debt securities	\$ 144	\$ 93	\$ 170
Losses on sale of debt securities			(9)
Gains on sale of marketable equity securities		2	1
Total	\$ 144	\$ 95	\$ 162

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

	December 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Pledged against repurchase agreements	\$ 5,016	\$ 4,998	\$ 2,882	\$ 2,988
Pledged against Federal Home Loan Bank borrowed funds	1	1	6	6
Pledged against derivatives, to qualify for fiduciary powers, and to secure public and other deposits as required by law	2,818	2,853	4,995	5,184

Securitizations of mortgage loans retained in the investment portfolio for the years ended December 31, 2013, 2012, and 2011 were \$106 million, \$21 million, and \$62 million, respectively. These securitizations included a substantive guarantee by a third party. In 2013, the guarantors were Fannie Mae, Ginnie Mae, and Freddie Mac, which purchased

the underlying loans. In 2012, the guarantors were Fannie Mae and Freddie Mac. Fannie Mae guaranteed the 2011 securitizations. These securitizations were accounted for as a sale of the transferred loans and as a purchase of securities. The securities received from the guarantors are classified as AFS.

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

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

	December 31, 2013			December 31, 2012		
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts of Assets (Liabilities)	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts of Assets (Liabilities)
Reverse repurchase and similar arrangements	\$	\$	\$	\$ 5,100	\$ (4,000)	\$ 1,100
Repurchase and similar arrangements	(3,000)		(3,000)	(4,000)	4,000	

(in millions)

Note: The Company also offsets certain derivative assets and derivative liabilities on the Consolidated Balance Sheets. See Note 15, Derivatives for further information.

NOTE 4 LOANS AND LEASES

A summary of the loans and leases portfolio follows:

	December 31, 2013	December 31, 2012
	(in millions)	
Commercial	\$ 28,667	\$ 28,856
Commercial real estate	6,948	6,459
Leases	3,780	3,415
Total commercial	39,395	38,730
Residential, including originated home equity products	29,694	31,101
Home equity products serviced by others	2,171	2,960
Other secured retail	10,700	10,568
Unsecured retail	3,899	3,889
Total retail	46,464	48,518
Total loans and leases	\$ 85,859	\$ 87,248

Excluded from the table above are loans totaling \$1.1 billion, which were reclassified to loans held for sale at December 31, 2013. See Note 17, Divestitures and Branch Assets and Liabilities Held for Sale for further discussion.

Mortgage loans serviced for others by the Company's subsidiaries are not included above, and amounted to \$18.7 billion and \$18.6 billion at December 31, 2013 and 2012, respectively.

Loans pledged as collateral for FHLB borrowed funds totaled \$19.0 billion and \$22.9 billion at December 31, 2013 and 2012, respectively. This collateral consists primarily of residential mortgages and home equity loans. Loans pledged as collateral to support the contingent ability to borrow at the FRB discount window, if necessary, totaled \$13.9 billion and \$17.7 billion at December 31, 2013 and 2012, respectively.

In 2012, the Company purchased a portfolio of auto loans with outstanding principal balances of \$922 million. It also sold a portfolio of commercial real estate loans totaling \$227 million incurring a loss on sale of \$23 million that is presented in other net gains in the accompanying Consolidated Statements of Operations.

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

A summary of the investment in leases, before the allowance for lease losses, is as follows:

	December 31, 2013	December 31, 2012
	(in millions)	
Direct financing leases	\$ 3,668	\$ 3,260
Leveraged leases	112	155
Total leases	\$ 3,780	\$ 3,415

The components of the investment in leases, before the allowance for lease losses, are as follows:

	December 31, 2013	December 31, 2012
	(in millions)	
Total future minimum lease rentals	\$ 3,252	\$ 3,186
Estimated residual value of leased equipment (unguaranteed)	968	678
Initial direct costs	20	13
Unearned income on minimum lease rentals and estimated residual value of leased equipment	(460)	(462)
Total leases	\$ 3,780	\$ 3,415

At December 31, 2013, the future minimum lease rentals on direct financing and leveraged leases are as follows:

Year Ended December 31,	(in millions)
2014	\$ 675
2015	614
2016	501
2017	388

2018	363
Thereafter	711
Total	\$ 3,252

Pretax income on leveraged leases was \$3 million for the years ended December 31, 2013 and 2012 and \$6 million for the year ended December 31, 2011. The income tax expense on this income was \$1 million for the years ended December 31, 2013 and 2012 and \$2 million for the year ended December 31, 2011. There was no investment credit recognized in income during these years.

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 5 ALLOWANCE FOR CREDIT LOSSES, NONPERFORMING ASSETS, AND CONCENTRATIONS OF CREDIT RISK**

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

During 2013, the Company modified the way that it establishes the ALLL. As discussed in Note 1, Significant Accounting Policies, the ALLL is reviewed separately for commercial and retail segments, and the ALLL for each includes an adjustment for qualitative reserves that includes certain risks, factors and events that might not be measured in the statistical analysis. As a result of this change, the unallocated reserve was absorbed into the separately measured commercial and retail qualitative reserves.

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

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

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

	Year Ended December 31, 2013			Total
	Commercial	Retail	Unallocated	
Allowance for loan and lease losses as of January 1, 2013	\$ 509	\$ 657	\$ 89	\$ 1,255
Charge-offs	(108)	(595)		(703)
Recoveries	87	115		202
Net charge-offs	(21)	(480)		(501)
Sales / Other	(6)	(6)	(1)	(13)
Provision charged to income	(19)	396	103	480
Transfer of unallocated reserve to qualitative reserve	35	60	(95)	

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Loss emergence period change		96		(96)
Allowance for loan and lease losses as of December 31, 2013	498	723		1,221
Reserve for unfunded lending commitments as of January 1, 2013	40			40
Credit for unfunded lending commitments	(1)			(1)
Reserve for unfunded lending commitments as of December 31, 2013	39			39
Total allowance for credit losses as of December 31, 2013	\$ 537	\$ 723	\$	\$ 1,260

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Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	Year Ended December 31, 2012			Total
	Commercial	Retail	Unallocated	
	(in millions)			
Allowance for loan and lease losses as of January 1, 2012	\$ 691	\$ 816	\$ 191	\$ 1,698
Charge-offs	(257)	(853)		(1,110)
Recoveries	113	122		235
Net charge-offs	(144)	(731)		(875)
Sales / Other	(2)			(2)
Provision charged to income	(36)	572	(102)	434
Allowance for loan and lease losses as of December 31, 2012	509	657	89	1,255
Reserve for unfunded lending commitments as of January 1, 2012	61			61
Credit for unfunded lending commitments	(21)			(21)
Reserve for unfunded lending commitments as of December 31, 2012	40			40
Total allowance for credit losses as of December 31, 2012	\$ 549	\$ 657	\$ 89	\$ 1,295

	Year Ended December 31, 2011			Total
	Commercial	Retail	Unallocated	
	(in millions)			
Allowance for loan and lease losses as of January 1, 2011	\$ 828	\$ 1,021	\$ 156	\$ 2,005
Charge-offs	(378)	(1,008)		(1,386)
Recoveries	92	129		221
Net charge-offs	(286)	(879)		(1,165)
Sales/other			(33)	(33)
Provision charged to income	149	674	68	891
Allowance for loan and lease losses as of December 31, 2011	691	816	191	1,698
Reserve for unfunded lending commitments as of January 1, 2011	70			70
Credit for unfunded lending commitments	(9)			(9)

Reserve for unfunded lending commitments as of
December 31, 2011 61 61

Total allowance for credit losses as of December 31, 2011 \$ 752 \$ 816 \$ 191 \$ 1,759

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

	December 31, 2013			December 31, 2012		
	Commercial	Retail	Total	Commercial	Retail	Total
	(in millions)					
Individually evaluated	\$ 239	\$ 1,200	\$ 1,439	\$ 474	\$ 1,140	\$ 1,614
Formula-based evaluation	39,156	45,264	84,420	38,256	47,378	85,634
Total	\$ 39,395	\$ 46,464	\$ 85,859	\$ 38,730	\$ 48,518	\$ 87,248

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

	December 31, 2013			December 31, 2012			
	Commercial	Retail	Total	Commercial	Retail	Unallocated	Total
	(in millions)						
Individually evaluated	\$ 23	\$ 108	\$ 131	\$ 41	\$ 73	\$	\$ 114
Formula-based evaluation	514	615	1,129	508	584		1,092
Unallocated						89	89
Allowance for credit losses	\$ 537	\$ 723	\$ 1,260	\$ 549	\$ 657	\$ 89	\$ 1,295

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

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

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

	December 31, 2012				
	Pass	Special Mention	Substandard	Doubtful	Total
	(in millions)				
Commercial	\$ 27,100	\$ 744	\$ 809	\$ 203	\$ 28,856

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Commercial real estate	5,285	569	315	290	6,459
Leases	3,304	88	23		3,415
Total	\$ 35,689	\$ 1,401	\$ 1,147	\$ 493	\$ 38,730

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Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

	December 31, 2012				Total
	Current	1-29 Days Past Due	30-89 Days Past Due (in millions)	90 Days or More Past Due	
Residential, including originated home equity products	\$ 29,075	\$ 967	\$ 230	\$ 829	\$ 31,101
Home equity products serviced by others	2,595	188	62	115	2,960
Other secured retail	9,938	545	74	11	10,568
Unsecured retail	3,633	123	78	55	3,889
Total	\$ 45,241	\$ 1,823	\$ 444	\$ 1,010	\$ 48,518

The presentation of student loans at December 31, 2012 in the table above, and in the tables that follow, were reclassified from the other secured retail loan class to the unsecured retail loan class to conform to the Company's current loan class presentation.

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CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nonperforming Assets

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

	December 31, 2013			December 31, 2012		
	Accruing and 90 Days or More Nonaccruing	Delinquent	Total Loans and Leases	Accruing and 90 Days or More Nonaccruing	Delinquent	Total Loans and Leases
	(in millions)					
Commercial	\$ 96	\$	\$ 96	\$ 119	\$ 71	\$ 190
Commercial real estate	169		169	386	33	419
Leases				1		1
Total commercial	265		265	506	104	610
Residential, including originated home equity products	981		981	1,043		1,043
Home equity products serviced by others	89		89	133		133
Other secured retail	26		26	25		25
Unsecured retail	22	33	55	23	35	58
Total retail	1,118	33	1,151	1,224	35	1,259
Total	\$ 1,383	\$ 33	\$ 1,416	\$ 1,730	\$ 139	\$ 1,869

A summary of other nonperforming assets is as follows:

	December 31, 2013	December 31, 2012
	(in millions)	
Nonperforming assets, net of allowance:		
Commercial	\$ 10	\$ 36
Retail	40	58
Nonperforming assets, net of allowance	\$ 50	\$ 94

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

A summary of key performance indicators is as follows:

	December 31, 2013	December 31, 2012
Nonperforming commercial loans and leases as a percentage of total loans and leases	0.31%	0.70%
Nonperforming retail loans as a percentage of total loans and leases	1.34	1.44
Total nonperforming loans and leases as a percentage of total loans and leases	1.65	2.14
Nonperforming commercial assets as a percentage of total assets	0.23	0.51
Nonperforming retail assets as a percentage of total assets	0.97	1.04
Total nonperforming assets as a percentage of total assets	1.20%	1.55%

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

	December 31, 2013			December 31, 2012		
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	30-89 Days Past Due	90 Days or More Past Due	Total Past Due
	(in millions)					
Commercial	\$ 61	\$ 96	\$ 157	\$ 48	\$ 190	\$ 238
Commercial real estate	34	169	203	47	419	466
Leases	24		24	7	1	8
Total commercial	119	265	384	102	610	712
Residential, including originated home equity products	259	662	921	230	829	1,059
Home equity products serviced by others	43	60	103	62	115	177
Other secured retail	66	16	82	74	11	85
Unsecured retail	67	54	121	78	55	133
Total retail	435	792	1,227	444	1,010	1,454
Total	\$ 554	\$ 1,057	\$ 1,611	\$ 546	\$ 1,620	\$ 2,166

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

	December 31, 2013						
	Impaired Loans With a Related Allowance	Impaired Loans Without a Related Allowance	Total Contractual Balance	Total Recorded Investment Loans	Interest Income Recognized	Average Recorded Investment	
	(in millions)						
Commercial	\$ 86	\$ 15	\$ 33	\$ 214	\$ 119	\$ 1	\$ 157
Commercial real estate	76	8	44	221	120	1	149
Total commercial	162	23	77	435	239	2	306

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Residential, including originated home equity products	355	59	497	1,081	852	14	737
Home equity products serviced by others	91	11	21	125	112	5	114
Other secured retail	23	3	12	43	35	1	33
Unsecured retail	201	35		201	201	10	181
Total retail	670	108	530	1,450	1,200	30	1,065
Total	\$ 832	\$ 131	\$ 607	\$ 1,885	\$ 1,439	\$ 32	\$ 1,371

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December 31, 2012

	Impaired Loans With a Related Allowance	Allowance on Impaired Loans	Impaired Loans Without a Related Allowance	Unpaid Contractual Balance (in millions)	Total Recorded Investment in Impaired Loans	Interest Income Recognized	Average Recorded Investment
Commercial	\$ 138	\$ 25	\$ 50	\$ 321	\$ 188	\$ 1	\$ 276
Commercial real estate	133	16	153	448	286	1	310
Total commercial	271	41	203	769	474	2	586
Residential, including originated home equity products	268	41	536	1,003	804	6	474
Home equity products serviced by others	122	16	33	194	155	6	127
Other secured retail	28	5	15	49	43	1	33
Unsecured retail	138	11		138	138		11
Total retail	556	73	584	1,384	1,140	13	645
Total	\$ 827	\$ 114	\$ 787	\$ 2,153	\$ 1,614	\$ 15	\$ 1,231

Troubled Debt Restructurings

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

Because TDRs are impaired loans, the Company measures impairment by comparing the present value of expected future cash flows, or, when appropriate, collateral value, to the loan's recorded investment. Any excess of recorded investment over the present value of expected future cash flows or collateral value is recognized by creating a valuation allowance or increasing an existing valuation allowance. Any portion of the loan's recorded investment the Company does not expect to collect as a result of the modification is charged off at the time of modification.

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		Recorded Investment	Recorded Investment (dollars in millions)	Modification	Modification
Commercial	6	\$ 1	\$ 1	\$	\$ 1
Commercial real estate	1			(2)	
Total commercial	7	1	1	(2)	1
Residential, including originated home equity products	2,196	174	160	4	23
Home equity products serviced by others	312	14	11	(1)	4
Other secured retail	1,471	16	13		4
Unsecured retail	2,620	48	47	5	
Total retail	6,599	252	231	8	31
Total	6,606	\$ 253	\$ 232	\$ 6	\$ 32

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Total	3,596	\$	136	\$	139	314	\$	54	\$	53
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2012. If a TDR of any loan type becomes 90 days past due after being modified, the loan is written down to fair value less cost to sell. The amount written off is charged to the ALLL.

	2013		2012	
	Number of Contracts	Balance Defaulted (dollars in millions)	Number of Contracts	Balance Defaulted
Commercial	18	\$ 1	4	\$ 3
Commercial real estate	3	1	1	5
Total commercial	21	2	5	8
Residential, including originated home equity products	1,660	124	713	81
Home equity products serviced by others	229	5	208	15
Other secured retail	241	2	151	1
Unsecured retail	1,433	20	628	4
Total retail	3,563	151	1,700	101
Total	3,584	\$ 153	1,705	\$ 109

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*****Concentrations of Credit Risk***

Most of the Company's business activity is with customers located in the New England, Mid-Atlantic and Mid-West regions. Generally, loans are collateralized by assets including real estate, inventory, accounts receivable, other personal property and investment securities. As of December 31, 2013 and 2012, the Company had a significant amount of loans collateralized by residential and commercial real estate. There are no significant concentrations to particular industries within the commercial loan portfolio. Exposure to credit losses arising from lending transactions, which fail to perform according to contractual agreements, may fluctuate with the fair values of the collateral supporting loans. The Company's policy is to collateralize loans to the extent necessary; however, unsecured loans are also granted on the basis of the financial strength of the applicant and the facts surrounding the transaction.

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

The following table presents balances of loans with these characteristics:

	December 31, 2013				December 31, 2012					
	Home Equity Loans and Lines	Home Equity Products	Serviced by Others	Credit Cards	Residential Mortgages	Home Equity Loans and Lines	Serviced by Others	Credit Cards	Total	
	Residential Mortgages	of Credit	by Others	Credit Cards	Total	Residential Mortgages	of Credit	by Others	Credit Cards	Total
	(in millions)									
High loan-to-value	\$ 1,054	\$ 2,798	\$ 1,581	\$	\$ 5,433	\$ 1,892	\$ 4,685	\$ 2,266	\$	\$ 8,843
Interest only / negative amortization	882				882	868				868
Low introductory rate				119	119				118	118
Multiple characteristics and other	96				96	233				233
Total	\$ 2,032	\$ 2,798	\$ 1,581	\$ 119	\$ 6,530	\$ 2,993	\$ 4,685	\$ 2,266	\$ 118	\$ 10,062

NOTE 6 PREMISES, EQUIPMENT, AND SOFTWARE

A summary of the carrying value of premises and equipment follows:

	Useful Lives	December 31, 2013 (dollars in millions)	December 31, 2012
Land and land improvements	15 years	\$ 33	\$ 48
Buildings and leasehold improvements	5-40 years	636	669
Furniture, fixtures and equipment	5-10 years	1,598	1,671
Total premises and equipment, gross		2,267	2,388
Less: accumulated depreciation		1,675	1,745
Total premises and equipment, net		\$ 592	\$ 643

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The above table includes capital leases with book values of \$45 million and \$53 million and related accumulated depreciation of \$17 million and \$37 million as of December 31, 2013 and 2012, respectively. Depreciation charged to noninterest expense was \$138 million, \$163 million, and \$179 million for the years ended December 31, 2013, 2012, and 2011, respectively, and is presented in the Consolidated Statements of Operations in occupancy and equipment expense.

The Company entered into a sale-leaseback transaction during 2013, which includes an operating lease for a period of 10 years. There was a \$15 million gain recorded in 2013 of which \$14 million was deferred. There were no sale-leaseback transactions during 2012. During 2011, the Company entered into a sale-leaseback transaction, which included an operating lease for a period of 10 years. There was a \$1 million gain recorded in 2011 and the entire amount was deferred. The deferred gains on the Company's sale-leaseback transactions are amortized over the lease terms and reported in occupancy expense.

The Company had capitalized software assets, net of amortization, of \$729 million and \$623 million as of December 31, 2013 and 2012 respectively. Amortization expense was \$102 million, \$77 million, and \$53 million for the years ended December 31, 2013, 2012, and 2011, respectively. Capitalized software assets are reported as a component of other assets in the Consolidated Balance Sheets.

The estimated future amortization expense for capitalized software assets is as follows:

Year	(in millions)
2014	\$ 108
2015	92
2016	73
2017	56
2018	33
Thereafter	133
Total	\$ 495

NOTE 7 LEASE COMMITMENTS

The Company is committed under long-term leases for the rental of premises and equipment. These leases have varying renewal options and require, in certain instances, the payment of insurance, real estate taxes and other operating expenses.

At December 31, 2013, the aggregate minimum rental commitments under these non-cancelable operating leases and capital leases, exclusive of renewals, are as follows for the years ended December 31:

	Operating Leases	Capital Leases
	(in millions)	
2014	\$ 173	\$ 10
2015	161	7
2016	146	7
2017	119	6
2018	84	2
Thereafter	213	8
Total minimum lease payments	\$ 896	\$ 40
Amounts representing interest	n/a	(9)
Present value of net minimum lease payments	n/a	\$ 31

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Rental expense for such leases for the years ended December 31, 2013, 2012, and 2011 totaled \$224 million, \$203 million, and \$228 million, respectively, and is presented in the Consolidated Statements of Operations in occupancy and equipment expense.

NOTE 8 GOODWILL

Goodwill represents the excess of fair value of assets purchased over the purchase price. Since 1988, the Company has closed 26 acquisitions of banks or assets of banks. The changes in the carrying value of goodwill for the years ended December 31, 2013, 2012, and 2011 were:

	Consumer	Commercial	Total
		(in millions)	
Balance at December 31, 2011	\$ 6,393	\$ 4,918	\$ 11,311
Impairment losses based on results of interim impairment testing			
Balance at December 31, 2012	\$ 6,393	\$ 4,918	\$ 11,311
Impairment losses based on results of interim impairment testing	(4,435)		(4,435)
Transfers	178	(178)	
Balance at December 31, 2013	\$ 2,136	\$ 4,740	\$ 6,876

Accumulated impairment losses related to the Consumer Banking reporting unit totaled \$5.9 billion at December 31, 2013, and \$1.5 billion at December 31, 2012 and 2011. The accumulated impairment losses related to the Commercial Banking unit at December 31, 2013, 2012 and 2011 totaled \$50 million.

The Company performs an annual test for impairment of goodwill at a level of reporting referred to as a reporting unit. The Company has identified and allocated goodwill to the following reporting units based upon reviews of the structure of the Company's executive team and supporting functions, resource allocations and financial reporting processes:

Consumer Banking

Commercial Banking

During 2012, the Global Transaction Services reporting unit was combined with Commercial Banking following a reorganization of operations at RBSG.

The Company tested the value of goodwill as of June 30, 2013, and recorded an impairment charge of \$4.4 billion relating to the Consumer Banking reporting unit. The impairment charge, which was a non-cash item, had minimal impact on the Company's regulatory capital ratios and liquidity, and for segment reporting purposes was included in Other. Refer to Note 24, Business Segments, for information regarding segment reporting. No impairment was recorded in 2012 and 2011.

The valuation of goodwill is dependent on forward-looking expectations related to the performance of the U.S. economy and the associated financial performance of the Company. The prolonged delay in the full recovery of the U.S. economy, and the impact of that delay on earnings expectations, prompted a goodwill impairment test as of June 30, 2013. Although the U.S. economy has demonstrated signs of recovery, notably improvements in unemployment and housing, the pace and extent of recovery in these indicators, as well as in overall Gross Domestic Product, have lagged previous expectations. The impact of the slow recovery is most evident in the Company's Consumer Banking reporting unit. Forecasted economic growth for the U.S., coupled with the continuing impact of

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the new regulatory framework in the financial industry, have resulted in a deceleration of expected growth for the Consumer Banking reporting unit's future profits, and an associated goodwill impairment. Refer to Note 1, Significant Accounting Policies, for information regarding the impairment test.

NOTE 9 MORTGAGE BANKING

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

The Company received \$4.2 billion, \$5.4 billion, and \$4.0 billion of proceeds from the sale of residential mortgages in 2013, 2012, and 2011, respectively, and recognized gains on such sales of \$66 million, \$123 million, and \$41 million in 2013, 2012, and 2011, respectively. Pursuant to the standard representations and warranties obligations discussed in the preceding paragraph, the Company repurchased mortgage loans totaling \$35 million, \$13 million, and \$9 million in 2013, 2012, and 2011, respectively.

Mortgage servicing fees, a component of mortgage banking income, were \$61 million for the year ended December 31, 2013, and \$60 million for the years ended December 31, 2012 and 2011. The Company recorded a recovery of \$47 million compared to impairments of \$12 million and \$42 million for its MSRs for the years ended December 31, 2013, 2012, and 2011, respectively.

Changes related to MSRs were as follows:

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
MSRs:			
Balance as of January 1	\$ 215	\$ 215	\$ 209
Amount capitalized	45	67	59
Amortization	(52)	(67)	(53)
Carrying amount before valuation allowance	208	215	215
Valuation allowance for servicing assets:			
Balance as of January 1	70	58	16
Valuation (recovery) impairment	(47)	12	42
Balance at end of period	23	70	58

Net carrying value of MSR	\$ 185	\$ 145	\$ 157
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MSRs are presented in other assets on the Consolidated Balance Sheets.

The fair value of MSR is estimated using a valuation model that calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions. The valuation model uses a static discounted cash flow

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methodology incorporating current market interest rates. A static model does not attempt to forecast or predict the future direction of interest rates; rather it estimates the amount and timing of future servicing cash flows using current market interest rates. The current mortgage interest rate influences the expected prepayment rate and therefore, the length of the cash flows associated with the servicing asset, while the discount rate determines the present value of those cash flows. Expected mortgage loan prepayment assumptions are obtained using the QRM Multi Component prepayment model. The Company periodically obtains third party valuations of its MSR to assess the reasonableness of the fair value calculated by the valuation model.

The key economic assumptions used to estimate the value of mortgage MSR are presented in the following tables:

	Year Ended December 31,	
	2013	2012
	(dollars in millions)	
Fair value	\$ 195	\$ 147
Weighted-average life (in years)	5.4	3.6
Weighted-average constant prepayment rate	13.0%	21.4%
Weighted-average discount rate	10.8%	10.5%

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Prepayment rate:			
Decline in fair value from 50 bps adverse change in interest rates	\$ 9	\$ 11	\$ 18
Decline in fair value from 100 bps adverse change in interest rates	\$ 18	\$ 18	\$ 25
Weighted-average discount rate:			
Decline in fair value from 50 bps adverse change	\$ 3	\$ 2	\$ 2
Decline in fair value from 100 bps adverse change	\$ 6	\$ 4	\$ 4

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

	Year Ended December 31,		
	2013	2012	2011
Weighted-average life (in years)	6.0	4.0	5.0
Weighted-average constant prepayment rate	12.4%	20.7%	16.2%
Weighted-average discount rate	10.5%	10.5%	10.6%

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

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The major components of deposits are as follows:

	December 31, 2013	December 31, 2012
	(in millions)	
Demand	\$ 24,931	\$ 25,931
Checking with interest	13,630	14,577
Regular savings	7,509	7,874
Money market accounts	31,245	35,102
Term deposits	9,588	11,664
Total deposits	\$ 86,903	\$ 95,148

The maturity distribution of term deposits as of December 31, 2013 is as follows:

Year	(in millions)
2014	\$ 7,444
2015	985
2016	465
2017	431
2018 and thereafter	263
Total	\$ 9,588

Of these deposits, the amount of term deposits with a denomination of \$100,000 or more was \$3.9 billion at December 31, 2013. The remaining maturities of these deposits are as follows:

	(in millions)
Three months or less	\$ 2,221
After three months through six months	427
After six months through twelve months	718
After twelve months	570
Total term deposits	\$ 3,936

Excluded from the tables above are deposits totaling \$5.3 billion, which includes term deposits of \$891 million, that were reclassified to deposits held for sale at December 31, 2013. See Note 17, Divestitures and Branch Assets and Liabilities Held for Sale for further discussion. Of these term deposits held for sale, term deposits with a denomination of \$100,000 or more were \$268 million as of December 31, 2013.

NOTE 11 BORROWED FUNDS

The following is a summary of the Company's short-term borrowed funds:

	Year Ended December 31,	
	2013	2012
	(in millions)	
Federal funds purchased	\$ 689	\$ 1,905
Securities sold under agreements to repurchase	4,102	1,696
Other short-term borrowed funds	2,251	501
Total short-term borrowed funds	\$ 7,042	\$ 4,102

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

	Year Ended December 31,		
	2013	2012	2011
	(dollars in millions)		
Weighted-average interest rate at year-end			
Federal funds purchased and securities sold under agreements to repurchase	0.09%	0.10%	0.06%
Other short-term borrowed funds	0.20	0.29	0.20
Maximum amount outstanding at month-end during the year			
Federal funds purchased and securities sold under agreements to repurchase	\$ 5,114	\$ 4,393	\$ 6,406
Other short-term borrowed funds	2,251	5,050	4,000
Average amount outstanding during the year			
Federal funds purchased and securities sold under agreements to repurchase	\$ 2,400	\$ 2,716	\$ 3,808
Other short-term borrowed funds	259	3,045	2,645
Weighted-average interest rate during the year			
Federal funds purchased and securities sold under agreements to repurchase	0.31%	0.22%	0.12%
Other short-term borrowed funds	0.44	0.33	2.51

The following is a summary of the Company's long-term borrowed funds:

	December 31,	December 31,
	2013	2012
	(dollars in millions)	
Parent company:		
4.150% fixed subordinated debt, due 2022, UST + 2.50%	\$ 350	\$ 350
5.158% fixed-to-floating (LIBOR + 3.56%) callable subordinated debt, due 2023	333	
4.771% fixed subordinated debt, due 2023	333	
4.691% fixed subordinated debt, due 2024	334	
1.86 % subordinated debt, due 2035		289
Bank Subsidiaries		
Federal Home Loan advances due through 2033	25	27
Other	30	28

Total long-term borrowed funds	\$ 1,405	\$	694
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Advances, lines of credit and letters of credit from the FHLB are collateralized by pledged mortgages and pledged securities at least sufficient to satisfy the collateral maintenance level established by the FHLB. The utilized borrowing capacity for FHLB advances and letters of credit was \$4.2 billion and \$1.1 billion at December 31, 2013 and 2012, respectively. The Company's available FHLB borrowing capacity was \$8.2 billion and \$12.8 billion at December 31, 2013 and 2012, respectively. The Company can also borrow from the FRB discount window to meet short-term liquidity requirements. These potential borrowed funds are secured by investment securities and loans. At December 31, 2013, the Company's unused secured borrowing capacity was approximately \$28.9 billion, which includes free securities, FHLB borrowing capacity, and FRB discount window capacity. Additionally, at December 31, 2013, the Company had available a \$50 million line of credit with RBS. This line of credit was not drawn upon at December 31, 2013, expired on January 31, 2014, and was not renewed.

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The following is a summary of maturities for the Company's long-term borrowed funds at December 31, 2013:

Year	(in millions)
2014 or on demand	\$
2015	3
2016	6
2017	17
2018	13
2019 and thereafter	1,366
Total	\$ 1,405

NOTE 12 PREFERRED STOCK

The Company has authorized 30,000 shares of \$1 par value non-cumulative, non-voting perpetual preferred stock as of December 31, 2013. The preferred stock ranks senior to the common stock of the Company with respect to dividend rights upon liquidation or dissolution of the Company. The stock is not convertible into any other property of the Company, nor is it redeemable by either the Company or the holder thereof. Dividends are non-cumulative and are payable quarterly at LIBOR plus 180 bps, if and when declared by the Company's board of directors. In the event of any liquidation, dissolution or winding up of the Company, holders of each share of the preferred stock outstanding are entitled to be paid, out of the assets of the Company available for distribution to stockholders, before any payment is made to the holders of common stock, an amount equal to \$100,000 per share of preferred stock then issued and outstanding. There were no shares issued and outstanding during 2013 or 2012.

NOTE 13 EMPLOYEE BENEFITS**Pension Plans**

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

RBSG restructured the administration of employee benefit plans during 2008. As a result, the qualified and non-qualified pension plans of certain RBSG subsidiaries (referred to as the Company's Affiliates) merged with the Company's pension plans. As plan sponsor of the surviving plans, the Company recorded the pension obligation or asset (for the entire qualified plan) and obligation (for the entire non-qualified plan) in the accompanying Consolidated Balance Sheets as of December 31, 2013, 2012 and 2011.

During 2012, the Company offered to vested former employees who had not yet retired a one-time opportunity to receive the value of future defined benefit pension payments as a single lump sum payment. In December 2012, the Company made lump sum payments of \$196 million to former employees who accepted the offer, which resulted in a \$240 million reduction of the defined benefit obligation and a \$92 million settlement charge.

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The qualified plan's allocation by asset category is as follows:

Asset Category	Target Asset Allocation	Actual Asset Allocation	
	2014	2013	2012
Equity securities	45-55%	52.6%	54.2%
Debt securities	40-50	42.9	40.2
Other	0-10	4.5	5.6
Total		100.0%	100.0%

The written Pension Plan Investment Policy, set forth by the RBS Americas Retirement Committee, formulates those investment principles and guidelines that are appropriate to the needs and objectives of the Plan, and defines the management, structure, and monitoring procedures adopted for the ongoing operation of the aggregate funds of the Plan. Stated goals and objectives are:

Total return, consistent with prudent investment management, is the primary goal of the Plan. The nominal rate of return objective should meet or exceed the actuarial rate return target. In addition, assets of the Plan shall be invested to ensure that principal is preserved and enhanced over time;

The total return for the overall Plan shall meet or exceed the Plan's Policy Index;

Total portfolio risk exposure should generally rank in the mid-range of comparable funds. Risk-adjusted returns are expected to consistently rank in the top-half of comparable funds; and

Investment managers shall exceed the return of the designated benchmark index and rank in the top-half of the appropriate asset class and style universe.

The RBS Americas Retirement Committee reviews, at least annually, the assets and net cash flow of the Plan, discusses the current economic outlook and the Plan's investment strategy with the investment managers, reviews the current asset mix and its compliance with the Policy, and receives and considers statistics on the investment performance of the Plan.

The Plan's investment advisors may vary equity commitments from 90% to 100% of assets under management. American Depository Receipts may be held by each domestic stock manager, in proportions that each manager shall deem appropriate. The maximum weight of the stock of any one company at the total portfolio level is 5% at market.

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The minimum quality rating of any fixed income issue held in an investment grade portfolio should be B, and the overall weighted-average quality should be A or higher. The overall quality of the high yield fixed income portfolio should be B or better. The average duration (interest rate sensitivity) of an actively managed fixed income portfolio should not exceed seven years.

Securities of an individual issuer, except the U.S. government and agencies and sovereign nations and their agencies, should not constitute more than 8% of an investment manager's portfolio at any time, at fair value.

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CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The assets of the qualified plan may be invested in any or all of the following asset categories:

a) Equity-oriented investments:

domestic and foreign common and preferred stocks, and related rights, warrants, convertible debentures, and other common share equivalents

equity index futures, and options on equity index futures

exchange traded options on equities

venture capital funds / partnerships

b) Fixed income-oriented investments:

domestic and foreign bonds, debentures and notes

mortgages

mortgage-backed securities

asset-backed securities

guaranteed investment contracts or certificates

term deposits

money market securities or cash

financial futures and options on financial futures

forward contracts

options on financial instruments

Unless specifically approved by the RBS Americas Retirement Committee, certain securities, strategies and investments are ineligible for inclusion within this Plan's asset base. Among these are:

privately-placed or other non-marketable debt, except securities issued under Rule 144A;

lettered, legend or other so-called restricted stock;

commodities (only the PIMCO All Asset Fund has been approved, which invests in a variety of PIMCO funds, including the PIMCO Commodity Real Return Fund);

straight preferred stocks and non-taxable municipal securities should not normally be held unless pricing anomalies in the marketplace suggest the likelihood of near-term capital gains when normal spread relationships resume;

unhedged short sales (market neutral hedge fund has been approved);

direct investments in private placements, real estate, oil and gas and venture capital; and

any transaction prohibited by ERISA.

In addition, derivative instruments are permitted for the following reasons: hedging, creation of market exposures and management of country and asset allocation exposure. Derivative instruments are prohibited for the following reasons: leverage and unrelated speculation.

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In selecting the expected long-term rate of return on assets, the Company considers the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of this Plan. This includes considering the trust's asset allocation and the expected returns likely to be earned over the life of the Plan. This basis is consistent with the prior year.

Changes in the fair value of defined benefit pension plan assets, projected benefit obligation, funded status, and accumulated benefit obligation are summarized as follows:

	Year Ended December 31,					
	Qualified Plan			Non-Qualified Plan		
	2013	2012	2011	2013	2012	2011
	(in millions)					
Fair value of plan assets as of January 1	\$ 998	\$ 1,106	\$ 975	\$	\$	\$
Actual return (loss) on plan assets	111	142	(23)			
Employer contributions			200	8	8	7
Settlements		(196)				
Benefits and administrative expenses paid	(78)	(54)	(46)	(8)	(8)	(7)
Fair value of plan assets as of December 31	1,031	998	1,106			
Projected benefit obligation	1,026	1,185	1,118	107	116	109
Pension asset (obligation)	\$ 5	\$ (187)	\$ (12)	\$ (107)	\$ (116)	\$ (109)
Accumulated benefit obligation	\$ 1,026	\$ 1,185	\$ 1,100	\$ 107	\$ 116	\$ 109

The table below summarizes the beneficial interest in the pension asset (obligation) for the qualified and non-qualified plans between the Company and Affiliates:

	Year Ended December 31,					
	Qualified Plan			Non-Qualified Plan		
	2013	2012	2011	2013	2012	2011
	(in millions)					
Citizens	\$ 56	\$ (116)	\$ 33	\$ (101)	\$ (113)	\$ (107)
Affiliates	(51)	(71)	(45)	(6)	(3)	(2)
Pension asset (obligation)	\$ 5	\$ (187)	\$ (12)	\$ (107)	\$ (116)	\$ (109)

The Company's share of the 2012 single lump sum payments to vested former employees described earlier in this Note for the qualified plan was \$146 million, while \$15 million of the lump sum payments were due from Affiliates as of December 31, 2012. There were no balances due to or due from Affiliates as of December 31, 2013 or December 31, 2011.

The pretax amounts recognized (for the qualified and non-qualified plans) in AOCI are as follows:

	December 31,	
	2013	2012
	(in millions)	
Net prior service credit	\$	\$
Net actuarial loss	414	602
Total loss recognized in accumulated other comprehensive income	\$ 414	\$ 602

Approximately \$10 million of net actuarial loss recorded in AOCI as of December 31, 2013 is expected to be recognized as a component of net periodic benefit costs during 2014.

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Other changes in plan assets and benefit obligations (for the qualified and non-qualified plans) recognized in OCI include the following:

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Net periodic pension (income) / cost	\$ (3)	\$ 150	\$ 39
Net actuarial (gain) loss	(174)	169	242
Amortization of prior service credit		1	1
Amortization of net actuarial loss	(14)	(38)	(20)
Settlement		(92)	
Total recognized in other comprehensive income	(188)	40	223
Total recognized in net periodic pension cost and other comprehensive income	\$ (191)	\$ 190	\$ 262

There were no settlements for the years ended December 31, 2013 and 2011. The Company's share of the \$92 million settlement was \$77 million for the year ended December 31, 2012.

Weighted-average rates assumed in determining the actuarial present value of benefit obligations and net periodic benefit cost are as follows:

	Year Ended December 31,		
	2013	2012	2011
Assumptions for benefit obligations:			
Discount rate - qualified plan	5.00%	4.125%	5.25%
Discount rate - non-qualified plan	4.75	4.00	5.00
Compensation increase rate	N/A	N/A	4.75
Expected long-term rate of return on plan assets	7.50	7.75	8.25
Assumptions for net periodic pension cost:			
Discount rate - qualified plan	4.125	5.25	5.75
Discount rate - non-qualified plan	4.00	5.00	5.63
Compensation increases - qualified and non-qualified plans	N/A	4.75	4.75
Expected long-term rate of return on plan assets	7.50	7.75	8.25

The Company expects to contribute \$8 million to its non-qualified plan in 2014.

The following benefit payments for the qualified and non-qualified plans reflect expected future service, as appropriate, that are expected to be paid, are as follows:

		(in millions)
Expected benefit payments by fiscal year ended:		
December 31, 2014		\$ 65
December 31, 2015		65
December 31, 2016		66
December 31, 2017		67
December 31, 2018		68
December 31, 2019	2023	361

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CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements

The following valuation techniques are used to measure the qualified pension plan assets at fair value:

Cash and money market funds:

Cash and money market funds represent instruments that generally mature in one year or less and are valued at cost, which approximates fair value. Cash and money market funds are classified as Level 2.

Mutual funds:

Where observable quoted prices are available in an active market, mutual funds are classified as Level 1 in the fair value hierarchy. If quoted market prices are not available, mutual funds are classified as Level 2 because they currently trade in active markets and the Company expects all future purchases and sales to be valued at current net asset value.

Corporate bonds, municipal obligations, U.S. government obligations and Non-U.S. government obligations:

Corporate bonds, municipal obligations, U.S. government obligations and Non-U.S. government obligations are valued at the quoted market prices determined in the active markets in which the bonds are traded. If quoted market prices are not available, the fair value of the security is estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. These investments are classified as Level 2, because they currently trade in active markets for similar securities and the inputs to the valuations are observable.

Limited partnerships:

Limited partnerships are valued at estimated fair value based on their proportionate share of the limited partnerships fair value as recorded in the limited partnerships audited financial statements. The limited partnerships invest primarily in readily marketable securities. The limited partnerships allocate gains, losses and expenses to the partners based on ownership percentage as described in the partnership agreements. The instruments that can be transacted at the investment net asset value are classified as Level 2 because the Company expects all future purchases and sales to be valued at current net asset value. The instruments that cannot be transacted at the investment net asset value are classified as Level 3 investments.

Common collective funds:

The fair value is estimated using the net asset value received from the investment companies. The instruments that can be transacted at the investment net asset value are classified as Level 2 because the Company expects all future purchases to be valued at current net asset value. Instruments that cannot be transacted at the investment net asset value are classified as Level 3 investments.

Derivatives-Managed portfolio:

The managed portfolio invests in certain derivatives that are valued at the settlement price determined by the relevant exchange and are classified as Level 2 in the fair value hierarchy.

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The following tables present the qualified pension plan assets measured at fair value within the fair value hierarchy:

	Fair Value Measurements as of December 31, 2013			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Cash and money market funds	\$ 8	\$	\$ 8	\$
Mutual funds				
International equity funds	28	28		
Income funds	43		43	
Common and collective funds				
International equity common and collective funds	115		115	
Balanced common and collective funds	474		474	
Fixed income common and collective funds	117		117	
Managed Fund				
Cash and money market funds	1		1	
Corporate bonds	105		105	
Municipal obligations	2		2	
U.S. government obligations	9		9	
Non-U.S. government obligations	3		3	
Limited partnerships	126		126	
Total assets measured at fair value	\$ 1,031	\$ 28	\$ 1,003	\$

	Fair Value Measurements as of December 31, 2012			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Cash and money market funds	\$ 20	\$	\$ 20	\$
Mutual funds				
International equity funds	31	31		
Income funds	49		49	
Common and collective funds				
International equity common and collective funds	115		115	
Balanced common and collective funds	395		395	
Fixed income common and collective funds	123		123	
Managed Fund				
Cash and money market funds	5		5	
U.S. government obligations	15		15	
Municipal obligations	2		2	

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Corporate bonds	97		97	
Non-U.S. government obligations	4		4	
Derivative assets- swaps	1		1	
Derivative liabilities- swaps	(1)		(1)	
Limited partnerships	142		142	
Total assets measured at fair value	\$ 998	\$ 31	\$ 967	\$

In keeping with the Plan's fixed income strategic objectives, the December 31, 2013 holdings of the managed fund included exchange traded Eurodollar futures contracts with a notional value of \$324 million and an unrealized gain (fair value) of under \$1 million. There were no transfers among Levels 1, 2 or 3 during the years ended December 31, 2013, 2012, and 2011.

The fair values of participation units in the common and collective trusts are based on net asset value after adjustments to reflect all fund investments at fair value. The unfunded commitments,

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redemption frequency, and redemption notice period for those Plan investments that utilize net asset value to determine the fair value as of December 31, 2013 and 2012, are as follows:

Investments	Fair Value Estimated Using Net Asset Value per Share as of December 31					
	2013	2012	Unfunded Commitment	Redemption Frequency	Redemption Restrictions	Notice Period
	(dollars in millions)					
Equity Mutual Fund ⁽¹⁾ Common and Collective Funds:	\$ 43	\$ 49	\$	Daily	None	1-7 days
Domestic equity funds ⁽²⁾				Daily	None	5-15 days
International equity funds ⁽³⁾	115	115		Monthly	None	3 days
Balanced funds ⁽⁴⁾	474	395		Daily	None	2-3 days
Fixed income fund ⁽⁵⁾	117	123		Daily	None	3 days
Limited Partnerships:						
International Equity ⁽⁶⁾	116	130		Daily	None	10 days
Offshore Feeder Fund ⁽⁷⁾	10	12		Monthly	None	14 days
Total	\$ 875	\$ 824	\$			

- (1) The equity mutual fund seeks to offer participants capital appreciation by primarily investing in common stocks via investments in several underlying funds of the same fund family. The principle investment objective is to generate positive total return.
- (2) The domestic equity funds seek to offer participants capital appreciation by primarily investing in common stocks of companies domiciled in the U.S. Strategies may also include total return while limiting the exposure to the equity market risk.
- (3) The international equity funds seek medium to long-term capital appreciation principally through global investments in readily marketable high-quality equity securities of companies with improving fundamentals and attractive valuations.
- (4) The balanced funds seek to maximize total return by investing in global equities and fixed income transferable securities that may include some high yield fixed income transferable securities. The fund may invest in securities denominated in currencies other than U.S. dollars.

- (5) The fixed income fund seeks to outperform the Barclays Capital U.S. Corporate Investment Grade Bond Index or similar benchmark.
- (6) The international equity limited partnership focuses on global and agribusiness strategies, blending a thematic framework with security-level analysis and customized valuation techniques. The fund conducts primary research to identify investable themes that provide clients with diversification benefits and help create opportunities for outperformance over a market cycle.
- (7) The offshore feeder fund operates under a master / feeder structure whereby it invests substantially all assets in the GMO Multi-Strategy Fund (Onshore) (the master fund). The investment objective of the master fund is capital appreciation with a target performance of the Citigroup Three-Month Treasury Bill plus 8% with a standard deviation of 5%. The investment advisor plans to pursue the master fund's objective through a combination of investments in other pooled vehicles.

Postretirement Benefits

The Company and Affiliates merged their postretirement plans into a single postretirement plan in 2008 and continue to provide health care insurance benefits for certain retired employees and their spouses. Employees enrolled in medical coverage immediately prior to retirement and meeting eligibility requirements can elect retiree medical coverage. Employees and covered spouses can continue coverage at the full cost, except for a small group described below. However, coverage must be elected at the time of retirement and cannot be elected at a future date. Spouses may be covered only if the spouse is covered at the time of the employee's retirement.

The Company reviews coverage on an annual basis and reserves the right to modify or cancel coverage at any renewal date. The Company's cost sharing for certain full-time employees, who were

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hired prior to August 1, 1993 with 25 years of service who reach retirement age (under age 65) while employed by the Company is 70%; for those with 15-24 years of service, the Company's share is 50%. Also, the Company shares in the cost for retiree medical benefits for a closed group of grandfathered arrangements from acquisitions. A small, closed group of retirees receive life insurance coverage.

The accumulated postretirement benefit obligation was \$27 million and \$30 million at December 31, 2013 and 2012, respectively. The funded status was a liability of \$27 million and \$30 million at December 31, 2013 and 2012, respectively, and is reported in other liabilities in the accompanying Consolidated Balance Sheets. The total gain recognized in OCI was \$367 thousand at December 31, 2013 and a total cost recognized in OCI was \$1 million at December 31, 2012.

The Company contributed and paid benefits of \$3 million, \$2 million, and \$3 million during 2013, 2012 and 2011, respectively. The benefits expected to be paid in each of the next five years is \$2 million, and \$9 million is expected to be paid during the five years from 2019 through 2023. The Company expects to contribute approximately \$2 million to the plan during 2014.

The weighted-average discount rate assumed in determining the actuarial present value of benefit obligations was 4.625% and 3.88% as of December 31, 2013 and 2012, respectively.

For measurement purposes, a 7.5% and 8.0% assumed annual rate of increase in the per capita cost of covered health care benefits was used for the years ended December 31, 2013 and 2012, respectively, decreasing gradually down to a 5% ultimate rate over the next several years.

Weighted-average rates assumed in determining the net periodic benefit cost of the postretirement benefits plan are as follows:

	Postretirement Benefits Plan	
	2013	2012
	(dollars in millions)	
Discount rate	3.875%	5.00%
Rate of compensation increase		
Healthcare cost trend rate for the next year	5.00	5.00
Effect on accumulated postretirement benefit obligation		
One percent increase	\$ 2	\$ 2
One percent decrease	(2)	(2)

Postemployment Benefits

The Company provides postemployment benefits to certain former and inactive employees, primarily the Company's long-term disability plan. Effective January 1, 2013, the Company required claimants receiving long-term disability benefits for 24 months to apply for Medicare approval so that Medicare is the primary payer of medical benefits. (Benefit) Cost recorded for the years ended December 31, 2013, 2012 and 2011 were (\$3) million, (\$1) million, and \$3 million, respectively.

401(k) Plan

The Company sponsors an employee tax-deferred 401(k) plan under which individual employee contributions to the plan are matched by the Company. For periods prior to 2012, contributions are

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matched at 100% up to an overall limitation of 6% on a pay period basis. Employees hired or rehired on or after January 1, 2009 receive an additional 3% of earnings, subject to limits set by the Internal Revenue Service. Effective January 1, 2013, contributions are matched at 100% up to an overall limitation of 5% on a pay period basis. Substantially all employees will receive an additional 2% of earnings, subject to limits set by the Internal Revenue Service. Amounts contributed by the Company for the years ended December 31, 2013, 2012, and 2011 were \$70 million, \$60 million, and \$57 million, respectively.

NOTE 14 INCOME TAXES

Total income tax (benefit) expense was as follows:

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Income tax (benefit) expense	\$ (42)	\$ 381	\$ 272
Tax effect of changes in OCI	(194)	125	89
Total comprehensive income tax (benefit) expense	\$ (236)	\$ 506	\$ 361

Components of income tax expense (benefit) are as follows:

	Current	Deferred	Total
	(in millions)		
<u>Year Ended December 31, 2013</u>			
U.S. federal	\$ 3	\$ (47)	\$ (44)
State and local	8	(6)	2
Total	\$ 11	\$ (53)	\$ (42)
<u>Year Ended December 31, 2012</u>			
U.S. federal	\$ 19	\$ 269	\$ 288
State and local	56	37	93
Total	\$ 75	\$ 306	\$ 381
<u>Year Ended December 31, 2011</u>			
U.S. federal	\$ (22)	\$ 220	\$ 198

State and local	42	32	74
Total	\$ 20	\$ 252	\$ 272

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The effective income tax rate differed from the U.S. federal income tax rate of 35% in 2013, 2012 and 2011 as follows:

	Year Ended December 31,					
	2013		2012		2011	
	Amount	Rate	Amount	Rate	Amount	Rate
	(dollars in millions)					
U.S. Federal income tax (benefit) expense and tax rate	\$ (1,214)	35.00%	\$ 359	35.00%	\$ 270	35.00%
Increase (decrease) resulting from:						
Goodwill Impairment	1,217	(35.09)				
State and local income taxes (net of federal benefit)	1	(0.03)	61	5.93	48	6.24
Changes in uncertain tax positions				0.01	(1)	(0.07)
Bank-owned life insurance	(17)	0.50	(18)	(1.76)	(17)	(2.21)
Tax-exempt interest	(13)	0.37	(12)	(1.14)	(10)	(1.23)
Low income housing partnerships	(11)	0.32	(8)	(0.76)	(7)	(0.93)
Other	(5)	0.14	(1)	(0.10)	(11)	(1.47)
Total income tax (benefit) expense and rate	\$ (42)	1.21%	\$ 381	37.18%	\$ 272	35.33%

The decrease in the effective rate from 2012 to 2013 represents the tax rate impact of the 2013 goodwill impairment in addition to the tax rate impact of a 2012 state tax settlement. The state tax settlement represents 2.45% of the total tax rate for 2012 and is included in the rate reconciliation as a component of state and local income taxes (net of federal benefit).

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	December 31, 2013	December 31, 2012
	(in millions)	
Deferred tax assets:		
Unrealized net loss on securities and derivatives	\$ 397	\$ 203
Allowance for credit losses	475	486
Net operating loss carryforwards	129	266
Accrued expenses not currently deductible	149	150
Investment and other tax credit carryforwards	62	47

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Deferred income	35	23
Fair value marks	30	23
Other		3
Total deferred tax assets	1,277	1,201
Valuation allowance	(137)	(163)
Deferred tax assets, net of valuation allowance	1,140	1,038
Deferred tax liabilities:		
Leasing transactions	811	739
Amortization of intangibles	296	572
Depreciation	124	95
Pension	56	47
MSRs	50	31
Other	2	
Total deferred tax liabilities	1,339	1,484
Net deferred tax liability	\$ 199	\$ 446

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Certain 2012 balances in the table above were restated to better conform to the current year presentation. This adjustment expanded the pension category to include other employee compensation plans that were included as accrued expenses not currently deductible in 2012.

At December 31, 2013, the Company had deferred tax assets of \$191 million in connection with federal and state net operating loss and credit carryforwards. At December 31, 2013, the federal net operating loss carryforward was approximately \$19 million, the state net operating loss carryforward was approximately \$110 million, federal tax credit carryforwards were approximately \$55 million and state tax credit carryforwards were approximately \$7 million. These net operating losses and credits will expire, if not utilized, in the years 2014 through 2033, except for approximately \$129 thousand of federal alternative minimum tax credits, which do not expire.

The Company had at December 31, 2013, a valuation allowance of \$137 million against the deferred tax assets related to certain state temporary differences, net operating losses and credits, as it is management's current assessment that it is more likely than not that the Company will not recognize a portion of the deferred tax asset related to these items. The valuation allowance decreased \$26 million during the year ended December 31, 2013.

Effective with fiscal year ended September 30, 1997, the reserve method for bad debts was no longer permitted for tax purposes. The repeal of the reserve method required the recapture of the reserve balance in excess of certain base year reserve amounts attributable to years ended prior to 1988. At December 31, 2013 the Company's base year loan loss reserves attributable to years ended prior to 1988, for which no deferred income taxes have been provided, was \$557 million. This base year reserve may become taxable if certain distributions are made with respect to the stock of the Company or if the Company ceases to qualify as a bank for tax purposes. No actions are planned that would cause this reserve to become wholly or partially taxable.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal or state and local income tax examinations by major tax authorities for years before 2008.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	December 31, 2013	December 31, 2012	December 31, 2011
		(in millions)	
Balance at the beginning of the period, January 1	\$ 34	\$ 136	\$ 104
Gross increases for tax positions related to prior years		29	48
Gross decreases for tax positions related to prior years			(6)
Decreases for tax positions relating to settlements with taxing authorities	(1)	(134)	(10)
Gross increases for tax positions related to the current years		3	

Balance at end of period	\$ 33	\$	34	\$	136
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Included in the total amount of unrecognized tax benefits at December 31, 2013, are potential benefits of \$23 million that, if recognized, would affect the effective tax rate.

The Company classifies interest and penalties related to unrecognized tax benefits as a component of income taxes. The Company accrued \$2 million, \$14 million, and \$18 million of interest

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expense through December 31, 2013, 2012, and 2011, respectively. The Company had approximately \$14 million, \$12 million, and \$55 million accrued for the payment of interest at December 31, 2013, 2012, and 2011, respectively. There were no amounts accrued for penalties as of December 31, 2013, 2012, and 2011, and there were no penalties recognized during 2013, 2012, and 2011.

It is anticipated that during 2014 the Company will enter into settlement agreements with certain state taxing authorities regarding the issue of nexus. Settlement of these uncertainties would reduce the unrecognized tax benefit by \$19 million. During 2012, the Company settled a state tax issue for the years 2003 through 2008 related to its real estate investment trust and various passive investment companies. Settlement of these uncertainties reduced the unrecognized tax benefit by \$134 million.

NOTE 15 DERIVATIVES

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

The Company's derivative instruments are recognized on the Consolidated Balance Sheets at fair value. Information regarding the valuation methodology and inputs used to estimate the fair value of the Company's derivative instruments is described in Note 19, Fair Value Measurements.

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

	December 31, 2013			December 31, 2012		
	Notional Amount ⁽¹⁾	Derivative Assets	Derivative Liabilities	Notional Amount ⁽¹⁾	Derivative Assets	Derivative Liabilities
	(in millions)					
Derivatives designated as hedging instruments:						
Interest rate swaps	\$ 5,500	\$ 23	\$ 412	\$ 4,200	\$ 1	\$ 257
Derivatives <u>not</u> designated as hedging instruments:						
Interest rate swaps	29,355	654	558	31,227	1,102	1,033
Foreign exchange contracts	7,771	94	87	5,978	71	67
Other contracts	569	7	10	2,815	35	15
Total derivatives <u>not</u> designated as hedging instruments		755	655		1,208	1,115

Gross derivative fair values	778	1,067	1,209	1,372
Less: Gross amounts offset in the Consolidated Balance Sheets ⁽²⁾	(128)	(128)	(54)	(54)
Total net derivative fair values presented in the Consolidated Balance Sheets ⁽³⁾	\$ 650	\$ 939	\$ 1,155	\$ 1,318

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

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

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

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

Institutional derivatives

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

The Company entered into certain interest rate swap agreements to hedge the market risk associated with fixed income securities. By entering into pay-fixed / receive-floating interest rate swaps, the Company was able to minimize the variability in the fair value of these securities due to changes in interest rates. The Company also has outstanding interest rate swap agreements to hedge the interest rate risk associated with floating rate loans. By entering into pay-floating / receive-fixed interest rate swaps, the Company is able to minimize the variability in the cash flows of these assets due to changes in interest rates.

Customer derivatives

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

Residential loan derivatives

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

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

Derivatives designated as hedging instruments

The majority of the Company's institutional hedging portfolio qualifies for hedge accounting. This includes interest rate swaps that are designated in highly effective cash flow hedging relationships. The

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

Cash flow hedges

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

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

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

The Effect of Cash Flow Hedges on Net Income and Stockholders' Equity

	Amounts Recognized for the Years Ended		
	December 31, 2013	December 31, 2012	December 31, 2011
	(in millions)		
Effective portion of loss recognized in OCI ⁽¹⁾	\$ (59)	\$ (42)	\$ (177)
Amounts reclassified from OCI to interest income ⁽²⁾	56		
Amounts reclassified from OCI to interest expense ⁽²⁾	(235)	(335)	(517)
Amounts reclassified from OCI to net gains ⁽³⁾	(1)	(1)	
Ineffective portion of gain recognized in other income ⁽⁴⁾		1	

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

- (2) This amount includes both (a) the amortization of effective gains and losses associated with the Company's terminated cash flow hedges and (b) the current reporting period's interest settlements realized on the Company's active cash flow hedges. Both (a) and (b) were previously included on the accumulated other comprehensive loss line item on the Consolidated Balance Sheets and were subsequently recorded as adjustments to the interest expense of the underlying hedged item.
- (3) This amount represents hedging gains and losses that have been immediately reclassified from accumulated other comprehensive loss based on the probability that the hedged forecasted transactions would not occur by the originally specified time period. This amount is reflected in the other net gains (losses) line item on the Consolidated Statements of Operations.
- (4) This amount represents the net ineffectiveness recorded during the reporting periods presented plus any amounts excluded from effectiveness testing. These amounts are reflected in the other income line item on the Consolidated Statements of Operations.

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

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

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

The Effect of Customer Derivatives and Economic Hedges on Net Income

**Amounts Recognized in Noninterest Income for
the Year Ended December 31,**

	2013	2012	2011
	(in millions)		

<u>Customer derivative contracts</u>	2013	2012	2011
Customer interest rate contracts ⁽¹⁾	\$ 79	\$ 292	\$ 706
Customer foreign exchange contracts ⁽¹⁾	18	10	2
Residential loan commitments ⁽³⁾	(7)	11	(28)
<u>Economic hedges</u>			
Offsetting derivatives transactions to hedge interest rate risk on customer interest rate contracts ⁽¹⁾	(30)	(285)	(690)
Offsetting derivatives transactions to hedge foreign exchange risk on customer foreign exchange contracts ⁽²⁾	(15)	(10)	(1)
Forward sale contracts ⁽³⁾	25	8	22
Total	\$ 70	\$ 26	\$ 11

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

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

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

NOTE 16 COMMITMENTS, GUARANTEES AND CONTINGENCIES

Commitments

Commitments to extend credit are agreements to lend to customers in accordance with conditions contractually agreed upon in advance. Generally, the commitments have fixed expiration dates or termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being drawn upon, the contract amounts are not necessarily indicative of future cash requirements.

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When-issued securities are agreements to purchase securities that have been authorized for issuance but not yet issued. The fair value of when-issued securities is reflected in the consolidated balance sheets at trade date.

During 2003, the Company entered into a 25-year agreement to acquire the naming and marketing rights of a baseball stadium in Pennsylvania. The Company paid \$3 million in each of the years ended December 31, 2013, 2012, and 2011, and is obligated to pay \$54 million over the remainder of the contract.

Letters of Credit

Standby letters of credit, both financial and performance, are issued by the Company for its customers. They are used as conditional guarantees of payment to a third party in the event the customer either fails to make specific payments (financial) or fails to complete a specific project (performance). Commercial letters of credit are used to facilitate the import of goods. The commercial letter of credit is used as the method of payment to the Company's customers suppliers. The Company's exposure to credit loss in the event of counterparty nonperformance in connection with the above instruments is represented by the contractual amount of those instruments, net of the value of collateral held. Standby letters of credit and commercial letters of credit are issued for terms of up to ten years and one year, respectively.

Generally, letters of credit are collateralized by cash, accounts receivable, inventory or investment securities. Credit risk associated with letters of credit is considered in determining the appropriate amounts of reserves for unfunded commitments.

The Company recognizes a liability on the Consolidated Balance Sheets representing its obligation to stand ready to perform over the term of the standby letters of credit in the event that the specified triggering events occur. The liability for these guarantees at December 31, 2013 and 2012 is \$3 million and \$4 million, respectively.

Risk Participation Agreements

RPAs are guarantees issued by the Company to other parties for a fee, whereby the Company agrees to participate in the credit risk of a derivative customer of the other party. Under the terms of these agreements, the participating bank receives a fee from the lead bank in exchange for the guarantee of reimbursement if the customer defaults on an interest rate swap. The interest rate swap is transacted such that any and all exchanges of interest payments (favorable and unfavorable) are made between the lead bank and the customer. In the event that an early termination of the swap occurs and the customer is unable to make a required close out payment, the participating bank assumes that obligation and is required to make this payment.

RPAs where the Company acts as the lead bank are referred to as participations-out, in reference to the credit risk associated with the customer derivatives being transferred out of the Company. Participations-out generally occur concurrently with the sale of new customer derivatives. RPAs where the Company acts as the participating bank are referred to as participations-in, in reference to the credit risk associated with the counterparty's derivatives being assumed by the Company. The Company's maximum credit exposure is based on its proportionate share of the settlement amount of the referenced interest rate swap. Settlement amounts are generally calculated based on the fair

value of the swap plus outstanding accrued interest receivables from the customer. The Company's estimate of the credit exposure associated with its risk participations-in as of December 31, 2013 and 2012 is \$17 million and \$30 million, respectively. The current amount of credit

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exposure is spread out over 71 counterparties. RPAs generally have terms ranging from 1-5 years; however, certain outstanding agreements have terms as long as 9 years.

Other Guarantees

The Company has issued a guarantee to RBS, for a fee, whereby the Company will absorb credit losses related to the sale of option contracts by RBS to customers of the Company. There were outstanding option contracts with a notional value of \$2 million and \$222 million at December 31, 2013 and 2012, respectively.

The following is a summary of outstanding off balance sheet arrangements:

	December 31, 2013	December 31, 2012
	(in millions)	
<u>Commitment amount:</u>		
Undrawn commitments to extend credit	\$ 53,987	\$ 50,507
Financial standby letters of credit	2,556	3,082
Performance letters of credit	149	152
Commercial letters of credit	64	103
Marketing rights	54	57
Risk participation agreements	17	30
Residential mortgage loans sold with recourse	13	17
Total	\$ 56,840	\$ 53,948

Contingencies

The Company operates in a legal and regulatory environment that exposes it to potentially significant risks. A certain amount of litigation ordinarily results from the nature of the Company's banking and other businesses. The Company is a party to legal proceedings, including class actions. It is also the subject of investigations, reviews, and regulatory matters arising out of its normal business operations, which, in some instances, relate to concerns about unfair and / or deceptive practices and mis-selling of certain products. In addition, the Company engages in discussions with relevant governmental and regulatory authorities on an ongoing and regular basis regarding various issues, and it is possible that any issues discussed or identified may result in investigatory or other action being taken. Litigation and regulatory matters may result in settlements, damages, fines, public or private censure, increased costs, required remediation, restriction on business activities, or other impact on the Company.

In these disputes and proceedings, the Company contests liability and the amount of damages as appropriate. Given their complex nature, it may be years before some of these matters are finally resolved. Moreover, before liability can be reasonably estimated for a claim, numerous legal and factual issues may need to be examined, including through

potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal issues relevant to the proceedings in question.

The Company cannot predict with certainty if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages. The Company recognizes a provision for a claim when, in the opinion of management after seeking legal advice, it is probable that a liability exists and the amount of loss can reasonably be estimated. In many proceedings, however, it is not possible to determine whether any loss is probable or to estimate the

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amount of any loss. In each of the matters described below, the Company is unable to estimate the liability in excess of any provision accrued, if any, that might arise or its effects on the Company's Consolidated Statements of Operations or Consolidated Cash Flows in any particular period.

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

Consumer Products

The activities of the Company's bank subsidiaries are subject to extensive laws and regulations concerning unfair or deceptive acts or practices in connection with customer products. Certain of the bank subsidiaries' practices with respect to overdraft protection and other consumer products have not met applicable standards. The bank subsidiaries have implemented and are continuing to implement changes to bring their practices in conformity with applicable laws and regulations. In April 2013, the bank subsidiaries consented to the issuance of orders by the OCC and the FDIC (the Consent Orders). In the Consent Orders (which are publicly available and will remain in effect until terminated by the regulators), the bank subsidiaries neither admitted nor denied the regulators' findings that they had engaged in deceptive marketing and implementation of the bank's overdraft protection program, checking rewards programs, and stop-payment process for pre-authorized recurring electronic fund transfers. Under the Consent Orders, the Company's 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), to cease and desist any operations in violation of Section 5 of the Federal Trade Commission Act, and to submit to the regulators periodic written progress reports regarding compliance with the Consent Orders. In addition, Citizens Bank, N.A. agreed to take certain remedial actions to improve its compliance risk management systems and to create a comprehensive action plan designed to achieve compliance with the Consent Order. Restitution plans have been prepared and submitted for approval and Citizens Bank, N.A. has submitted for approval, and is in the process of implementing, its action plan for compliance with the Consent Order, as well as updated policies, procedures, and programs related to its compliance risk management systems.

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

Fair Labor Standards Act Litigation

The Company has been named in several purported class actions brought under the FLSA and equivalent state statutes alleging that certain categories of branch employees were denied overtime for hours worked. These suits are brought by current and former branch employees alleging that either: (1) they are / were in Assistant Branch Manager positions and were improperly classified as exempt

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

Telephone Consumer Protection Act Litigation

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

LIBOR Litigation

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

Foreclosure-Related Expenses

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

Mortgage Repurchase Demands

The Company is an originator and servicer of residential mortgages and routinely sells such mortgage loans in the secondary market and to government-sponsored entities. In the context of such sales, the Company makes certain representations and warranties regarding the characteristics of the underlying loans and, as a result, may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of those representations and warranties. Between the start of January 2009 and the end of December 2013, the Company has received approximately \$119 million in repurchase demands and \$89 million in indemnification payment requests in

respect of loans originated, for the most part, since 2003. Of those claims presented, \$64 million was paid to repurchase residential mortgage loans, and \$25 million was incurred for indemnification costs to make investors whole. The Company repurchased mortgage loans totaling \$35 million and \$13 million for the

years ended December 31, 2013 and 2012, respectively. The Company incurred indemnification costs

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of \$12 million and \$5 million for the years ended December 31, 2013 and 2012, respectively. The Company cannot estimate what the future level of repurchase demands will be or the Company's ultimate exposure, and cannot give any assurance that the historical experience will continue in the future. It is possible that the volume of repurchase demands will increase. In addition to the above, the Company has since December 2013 been responding to subpoenas issued by the Office of the Inspector General for the Federal Housing Finance Agency seeking information about loans sold to the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation from 2003 through 2011.

NOTE 17 DIVESTITURES AND BRANCH ASSETS AND LIABILITIES HELD FOR SALE

In January 2014, the Company reached an agreement to sell its Chicago-area retail branches, small business relationships and select middle market relationships. The sale included 103 branches, approximately \$5.3 billion in local deposits and \$1.1 billion of locally originated loans as well as related branch premises. The transaction is subject to regulatory approval and is anticipated to close in the second quarter of 2014. As a result of this transaction, the assets and liabilities related to the branches being sold have been classified as held for sale.

The following table presents the assets and liabilities held for sale related to this transaction as of:

	December 31, 2013 (in millions)
Loans held for sale:	
Commercial	\$ 551
Commercial real estate	49
Total commercial	600
Residential mortgages	389
Other secured retail	7
Unsecured retail	82
Total retail	478
Total loans held for sale	1,078
Other branch assets held for sale:	
Properties and equipment, net	46
Total other branch assets held for sale	46
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Total branch assets held for sale	\$	1,124
Deposits held for sale:		
Demand	\$	1,020
Checking with interest		849
Regular savings		504
Money market accounts		2,013
Term deposits		891
Total deposits held for sale	\$	5,277
Total branch liabilities held for sale	\$	5,277

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On June 22, 2012, the Company completed the sale of 57 branches in New York. Assets and deposits totaled \$16 million and \$325 million, respectively. A gain of \$4 million was recognized in other net gains, offset by approximately \$4 million in one-time costs recognized in noninterest expense.

In June 2012, the Company entered into a series of transactions to sell substantially all of its venture capital investments. As a result, the Company de-recognized \$48 million of assets and recognized losses of \$14 million on the transactions, which are presented in other net gains in the accompanying Consolidated Statements of Operations.

NOTE 18 RELATED PARTY TRANSACTIONS

The following is a summary of inter-company borrowed funds:

	Related Party	Interest Rate	Maturity Date	December 31, 2013	December 31, 2012
Subordinated debt	RBSG	4.961%	January 2024	\$ 334	\$
	RBSG	4.771%	October 2023	333	
	RBS	5.158%	June 2023	333	
	RBS	Three month LIBOR + 1.50%	March 2035		289

Total interest expense recorded on inter-company subordinated debt was \$16 million, \$9 million, and \$67 million for the years ended December 31, 2013, 2012, and 2011, respectively.

The Company maintained a \$50 million revolving line of credit at December 31, 2013 and 2012 with RBS. This line of credit was not drawn upon at December 31, 2013 or 2012, expired on January 31, 2014, and was not renewed. No interest expense was incurred on this revolving line of credit for the years ended December 31, 2013, 2012, and 2011, respectively.

The Company enters into interest rate swap agreements with RBS for the purpose of reducing the Company's exposure to interest rate fluctuations. As of December 31, 2013, the total notional amount of swaps outstanding was \$5.5 billion. Included in this balance were \$1.5 billion which pay fixed rates ranging from 1.78% to 5.47% and receive overnight fed funds rate and one month LIBOR with maturities from 2014 through 2023. Also included in this balance were \$4 billion of receive-fixed swaps that had been executed as of June 30, 2013 as part of a new hedging program implemented during the quarter ended March 31, 2013. As of December 31, 2012, the total notional amount of swaps outstanding was \$4.2 billion, all of which pay fixed rates ranging from 2.94% to 5.47% and receive overnight Federal funds rate with maturities from 2013 through 2016. The Company recorded net interest expense of \$146 million, \$311 million, and \$457 million for the years ended December 31 2013, 2012, and 2011, respectively.

In order to meet the financing needs of its customers, the Company enters into interest rate swap and cap agreements with its customers and simultaneously enters into offsetting swap and cap agreements with RBS. The Company earns

a spread equal to the difference between rates charged to the customer and rates charged by RBS. The notional amount of these interest rate swap and cap agreements outstanding with RBS was \$13.4 billion and \$16.0 billion at December 31, 2013 and 2012, respectively. The Company recorded expense of \$32 million, \$285 million, and \$690 million within other income for the years ended December 31, 2013, 2012, and 2011, respectively.

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Also to meet the financing needs of its customers, the Company enters into a variety of foreign currency denominated products, such as loans, deposits and foreign exchange contracts. To manage the foreign exchange risk associated with these products, the Company simultaneously enters into offsetting foreign exchange contracts with RBS. The Company earns a spread equal to the difference between rates charged to the customer and rates charged by RBS. The notional amount of foreign exchange contracts outstanding with RBS was \$4.6 billion and \$3.4 billion at December 31, 2013 and December 31, 2012, respectively. The Company recorded expense within foreign exchange and trade finance fees of \$15 million, \$9 million and \$1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company has issued a guarantee to RBS for a fee, whereby the Company will absorb credit losses related to the sale of foreign exchange option contracts by RBS to customers of the Company. There were outstanding foreign exchange option contracts with a notional value of \$2 million and \$222 million at December 31, 2013 and 2012, respectively. The Company recorded fee income of \$0 million, \$1 million and \$2 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company receives income for providing services and referring customers to RBS. The Company also shares office space with certain RBS entities for which rent expense and / or income is recorded in occupancy expense. The total fee income, net of occupancy expense, for the years ended December 31, 2013, 2012, and 2011 was \$26 million, \$28 million, and \$24 million, respectively. In 2013 the Company paid \$1.0 billion of common stock dividends to RBS as part of the exchange transactions described in the Capital Resources section of the MD&A and \$185 million of regular dividends to RBS. In 2012, the Company paid \$150 million in regular common stock dividends to RBS. There were no dividends paid in 2011.

The Company, as a matter of policy and during the ordinary course of business with underwriting terms similar to those offered to the public, has made loans to directors and executive officers and their immediate families, as well as their affiliated companies. Such loans amounted to \$78 million and \$92 million at December 31, 2013 and 2012, respectively.

NOTE 19 FAIR VALUE MEASUREMENTS

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

Fair Value Option, Residential Mortgage Loans Held for Sale

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

the value of these loans and their related hedge instruments.

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The fair value of residential loans held for sale is derived from observable mortgage security prices and includes adjustments for loan servicing value, agency guarantee fees, and other loan level attributes which are mostly observable in the marketplace. Credit risk does significantly impact the valuation since loans are sold shortly after origination. Therefore, the Company classifies the residential mortgage loans held for sale in Level 2 of the fair value hierarchy.

At December 31, 2013, the fair value carrying amount of residential loans held for sale and the aggregate unpaid principal amount that the Company is contractually entitled to receive at maturity are \$176 million and \$173 million, respectively. At December 31, 2012, the fair value carrying amount of residential loans held for sale and the aggregate unpaid principal amount that the Company is contractually entitled to receive at maturity were \$624 million and \$597 million, respectively. The amount of loans past due or nonaccruing is considered insignificant.

The loans accounted for under the fair value option are initially measured at fair value when the financial asset is recognized. Subsequent changes in fair value are recognized in current earnings. The Company recognized \$(33) million, \$6 million, and \$14 million in mortgage banking noninterest income for the years ended December 31, 2013, 2012, and 2011, respectively. Interest income on residential loans held for sale is calculated based on the contractual interest rate of the loan and is recorded in interest income.

Recurring Fair Value Measurements

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

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

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

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

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

Derivatives: The majority of the Company's derivatives portfolio is comprised of plain vanilla interest rate swaps, which are traded in over-the-counter markets where quoted market prices are not readily available. For these interest rate derivatives, fair value is determined utilizing models that use primarily market observable inputs, such as swap rates and yield curves. The pricing models used to value interest rate swaps calculate the sum of each instrument's fixed and variable cash flows, which are then discounted using an appropriate yield curve (i.e., LIBOR or OIS curve) to arrive at the fair value of each swap. The pricing models do not contain a high level of subjectivity as the methodologies used do not require significant judgment. The Company also considers certain adjustments to the modeled price which market participants would make when pricing each instrument, including a credit valuation adjustment that reflects the credit quality of the swap counterparty. The Company incorporates the effect of exposure to a particular counterparty's credit by netting its derivative contracts with the collateral available and calculating a credit valuation adjustment on the basis of the net position with the counterparty where permitted. The determination of this adjustment requires judgment on behalf of Company management; however, the total amount of this portfolio-level adjustment is not material to the total fair value of the interest rate swaps in their entirety. Therefore, interest rate swaps are classified as Level 2 in the valuation hierarchy.

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

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

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

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

The following table presents assets and liabilities measured at fair value including gross derivative assets and liabilities on a recurring basis at December 31, 2012:

	Total	Level 1	Level 2	Level 3
	(in millions)			
Securities available for sale:				
Mortgage-backed securities	\$ 18,301	\$	\$ 18,301	\$
State and political subdivisions	21		21	
Equity securities	19	7	12	
U.S. Treasury	15	15		
Residential loans held for sale	624		624	
Derivative assets:				

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Interest rate swaps	1,103		1,103	
Foreign exchange contracts	71		71	
Other contracts	35		35	
Venture capital investments	6			6
Total assets	\$ 20,195	\$ 22	\$ 20,167	\$ 6
Derivative liabilities:				
Interest rate swaps	\$ 1,290	\$	\$ 1,290	\$
Foreign exchange contracts	67		67	
Other contracts	15		15	
Total liabilities	\$ 1,372	\$	\$ 1,372	\$

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

	Year Ended December 31,		
	2013	2012 (in millions)	2011
Balance as of January 1	\$ 6	\$ 57	\$ 64
Purchases, issuances, sales and settlements:			
Purchases		1	2
Sales	(4)	(45)	
Settlements	3	23	
Other net losses		(30)	(9)
Balance as of December 31	\$ 5	\$ 6	\$ 57
Net unrealized gain (loss) included in net income for the year relating to assets held at December 31	\$	\$ (11)	\$ 9

There were no transfers among Levels 1, 2 or 3 during the years ended December 31, 2013, 2012 and 2011.

Nonrecurring Fair Value Measurements

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

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

MSRs: MSRs do not trade in an active market with readily observable prices. MSRs are classified as Level 3 since the valuation methodology utilizes significant unobservable inputs. At December 31, 2013 the fair value is calculated using the discounted cash flow model, the model that uses assumptions, including weighted-average life of 5.4 years (range of 1.8 7.4 years), weighted-average constant prepayment rate of 13% (range of 9.4% 41.5%) and weighted-average discount rate of 10.8% (range of 10.2% 13.1%). Refer to Note 1, Significant Accounting Policies, and Note 9, Mortgage Banking, for more information.

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

Goodwill: Goodwill is valued using unobservable inputs and is classified as Level 3. Fair value is calculated using the present value of estimated future earnings (discounted cash flow method), the model which uses assumptions

including discount rate (9.5%), historical projected loss rates (commercial banking, 0.44%; retail banking, 0.57%), income tax (35%), and capital retention (7%). Refer to Note 1, Significant Accounting Policies, for a description of the goodwill valuation methodology.

Commercial loans held for sale: Commercial loans held for sale consist primarily of syndicated loans not sold at the time of funding. The mark to market is recorded in noninterest income in the Consolidated Statements of Operations.

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

	Carrying Value at December 31, 2013				Year Ended December 31, 2013
	Total	Level 1	Level 2	Level 3	Total (Losses) Gains
	(in millions)				
Impaired collateral-dependent loans ⁽¹⁾	\$ 74	\$	\$ 74	\$	\$ (83)
MSRs ⁽²⁾	185			185	47
Foreclosed real estate ⁽³⁾	49		49		(4)
Goodwill ⁽⁵⁾	6,876			6,876	(4,435)

	Carrying Value at December 31, 2012				Year Ended December 31, 2012
	Total	Level 1	Level 2	Level 3	Total Losses
	(in millions)				
Impaired collateral-dependent loans ⁽¹⁾	\$ 292	\$	\$ 292	\$	\$ (101)
MSRs ⁽²⁾	145			145	(12)
Foreclosed real estate ⁽³⁾	92		92		(6)
Commercial loans held for sale ⁽⁴⁾	22		22		

	Carrying Value at December 31, 2011				Year Ended December 31, 2011
	Total	Level 1	Level 2	Level 3	Total Losses
	(in millions)				
Impaired collateral-dependent loans ⁽¹⁾	\$ 488	\$	\$ 488	\$	\$ (118)
MSRs ⁽²⁾	157			157	(42)
Foreclosed real estate ⁽³⁾	116		116		(7)

⁽¹⁾ In 2013, impaired loans for which collection is dependent on the loan's collateral in the amount of \$161 million were written down to \$74 million, resulting in an impairment charge of \$83 million, which was charged to the allowance for loan and lease losses. In 2012, impaired loans for which collection is dependent on the loan's collateral in the amount of \$447 million were written down to their fair value of \$292 million, resulting in an

impairment charge of \$101 million, which was charged to the allowance for loan and lease losses. In 2011, impaired loans for which collection is dependent on the loan's collateral in the amount of \$875 million were written down to their fair value of \$488 million resulting in an impairment charge of \$118 million, which was charged to the allowance for loan and lease losses. Fair value of the loans was primarily based on the appraised value of the collateral.

- (2) In 2013, MSRs totaling \$215 million were evaluated for impairment and written down to \$185 million. An impairment recapture of \$47 million and a total cumulative valuation allowance of \$23 million were recognized. In 2012, MSRs totaling \$215 million were evaluated for impairment and written down to \$145 million, resulting in a charge of \$12 million and a total cumulative valuation allowance of \$70 million. In 2011, MSRs totaling \$209 million were evaluated for impairment and written down to \$157 million, resulting in an impairment charge of \$42 million. The fair value of MSRs was \$195 million, \$147 million and \$155 million at December 31, 2013, 2012, and 2011, respectively.
- (3) In 2013, foreclosed real estate accounted for at the lower of cost or fair value less costs to sell was written down to fair value of \$49 million, resulting in an impairment charge of \$4 million. In 2012, foreclosed real estate accounted for at the lower of cost or fair value less costs to sell was written down to fair value of \$92 million, resulting in an impairment charge of \$6 million. In 2011, foreclosed real estate accounted for at the lower of cost or fair value less costs to sell was written down to fair value of \$116 million, resulting in an impairment charge of \$7 million.
- (4) In 2012, commercial loans held for sale totaled \$22 million; cost approximated fair value.
- (5) In 2013, Goodwill totaling \$11.3 billion was written down to its implied fair value of \$6.9 billion, resulting in an impairment charge of \$4.4 billion. Fair value of \$6.9 billion was valued as of June 30, 2013.

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Disclosures about Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

	December 31, 2012							
	Total		Level 1		Level 2		Level 3	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)							
Financial Assets:								
Loans and leases	\$ 87,248	\$ 86,856	\$	\$	\$ 292	\$ 292	\$ 86,956	\$ 86,564
Other investment securities	1,061	1,061			1,061	1,061		
Financial Liabilities:								
Deposits	95,148	95,192			95,148	95,192		
Federal funds purchased and securities sold under agreements to repurchase	3,601	3,601			3,601	3,601		
Other short-term borrowed funds	501	501			501	501		
Long-term borrowed funds	694	693			694	693		

NOTE 20 REGULATORY MATTERS

As a BHC, the Company is subject to regulation and supervision by the FRBG. The primary subsidiaries of Citizens are its two insured depository institutions: Citizens Bank, N.A., a national banking association whose primary federal regulator is the OCC, and Citizens Bank of Pennsylvania, a Pennsylvania-chartered savings bank regulated by the Department of Banking of the Commonwealth of Pennsylvania and supervised by the FDIC as its primary federal regulator. Under the regulatory capital adequacy guidelines of the FDICIA, the Company and its banking subsidiaries must meet

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specific capital requirements. These requirements are expressed in terms of the following ratios: (1) Risk-based Total Capital (total capital/risk-weighted on- and off-balance sheet assets); (2) Risk-based Tier 1 Capital (tier 1 capital/risk-weighted on- and off-balance sheet assets); and (3) Tier 1 Leverage (tier 1 capital/adjusted average quarterly assets). To meet the regulatory capital requirements, the Company and its banking subsidiaries must maintain minimum Risk-based Total Capital, Risk-based Tier 1 Capital, and Tier 1 Leverage ratios. In addition, the Company must not be subject to a written agreement, order or capital directive with any of its regulators. Failure to meet minimum capital requirements can result in the initiation of certain actions that, if undertaken, could have a material effect on the Company's Consolidated Financial Statements.

The following table presents capital and capital ratio information:

	Actual		FDIC Requirements			
			Minimum Capital Adequacy		Classification as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in millions)						
As of December 31, 2013						
Total Capital to Risk-Weighted Assets	\$ 15,885	16.1%	\$ 7,891	8.0%	\$ 9,863	10.0%
Tier 1 Capital to Risk-Weighted Assets	13,301	13.5%	3,945	4.0%	5,918	6.0%
Tier 1 Capital to Average Assets (Leverage)	13,301	11.6%	3,433	3.0%	5,721	5.0%
As of December 31, 2012						
Total Capital to Risk-Weighted Assets	\$ 15,623	15.8%	\$ 7,901	8.0%	\$ 9,876	10.0%
Tier 1 Capital to Risk-Weighted Assets	14,036	14.2%	3,951	4.0%	5,926	6.0%
Tier 1 Capital to Average Assets (Leverage)	14,036	12.1%	3,475	3.0%	5,791	5.0%

In accordance with federal and state banking regulations, dividends paid by the Company's banking subsidiaries to the Company itself are generally limited to the retained earnings of the respective banking subsidiaries unless specifically approved by the appropriate bank regulator. The Company declared and paid RBS total common stock dividends of \$1.2 billion in 2013. There were \$150 million in common stock dividends in 2012 and no common stock dividends in 2011.

The earnings impact of goodwill impairment recognized by Citizens Bank, N.A. has put the bank subsidiary in the position of having to request specific approval from the OCC before executing capital distributions to its parent, Citizens. This requirement will be in place through the fourth quarter of 2015. Regardless of the OCC's decision regarding capital distributions by Citizens Bank, N.A., the stand-alone BHC, as of December 31, 2013, had liquid assets in excess of \$554 million compared to an annual interest burden on existing subordinated debt of approximately \$63 million.

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Supplemental cash flow information is as follows:

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Supplemental cash flow information:			
Interest paid	\$ 452	\$ 644	\$ 899
Income taxes paid (refunded)	20	201	(109)
Supplemental schedule of non-cash investing and financing activities:			
Transfer of securities from available-for-sale to held to maturity	\$ 4,240	\$ 0	\$
Transfer of other loans held for sale	1,078	22	
Loans securitized and transferred to securities available for sale	106	21	62
Capital contribution	14	27	30
Accrual and income tax true up related to the 2010 sale of RBS WorldPay, Inc.			12
Due from broker for securities sold but not settled	(442)	(4)	
Due to broker for securities purchased but not settled		2	

NOTE 22 RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in the balances, net of taxes, of each component of OCI:

	Net Unrealized Gains (Losses) on Derivatives	Net Unrealized Gains (Losses) on Securities	Defined Benefit Pension Plans	Total AOCI
	(in millions)			
Balance at January 1, 2011	\$ (642)	\$ 163	\$ (212)	\$ (691)
Other comprehensive loss before reclassifications	(112)	286		174
Other than temporary impairment not recognized in earnings on securities		(108)		(108)
Amounts reclassified from other comprehensive income	328	(90)	(141)	97
Net other comprehensive income (loss)	216	88	(141)	163

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Balance at December 31, 2011	(426)	251	(353)	(528)
Other comprehensive loss before reclassifications	(26)	138		112
Other than temporary impairment not recognized in earnings on securities		(38)		(38)
Amounts reclassified from other comprehensive income	212	(45)	(25)	142
Net other comprehensive income (loss)	186	55	(25)	216
Balance at December 31, 2012	(240)	306	(378)	(312)
Other comprehensive loss before reclassifications	(172)	(285)		(457)
Other than temporary impairment not recognized in earnings on securities		(26)		(26)
Amounts reclassified from other comprehensive income	114	(86)	119	147
Net other comprehensive (loss) income	(58)	(397)	119	(336)
Balance at December 31, 2013	\$ (298)	\$ (91)	\$ (259)	\$ (648)

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

Details about AOCI Components	Amount Reclassified from AOCI	Year Ended December 31, 2013
		Affected Line Item in the Consolidated Statements of Operations (in millions)
Reclassification adjustment for net derivative gains (losses) included in net income (loss):	\$ 56	Interest income
	(235)	Interest expense
	(1)	Other net gains
	(180)	Total before tax
	(66)	Tax benefit
	\$ (114)	Loss, net of tax
Reclassification of net securities gains (losses) to net income (loss):	\$ 144	Net gains on sales of securities available for sale
	(8)	Net impairment losses recognized in earnings
	136	Total before tax
	50	Tax expense
	\$ 86	Income, net of tax
Reclassification of changes related to the employee benefit plan:	\$ (190)	Salaries and employee benefits
	(190)	Total before tax
	(71)	Tax benefit
	\$ (119)	Loss, net of tax
Total reclassification loss:	\$ (147)	Loss, net of tax

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

	Year Ended December 31, 2013 (in millions)
Net interest income (includes \$(179) of AOCI reclassifications)	\$ 3,058
Provision for credit losses	479
Noninterest income (includes \$135 of AOCI reclassifications)	1,632
Noninterest expense (includes \$190 of AOCI reclassifications)	7,679
Loss before income tax benefit	(3,468)
Income tax benefit (includes \$87 income tax net benefit from reclassification items)	(42)
Net loss	\$ (3,426)

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Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 23 EXIT COSTS AND RESTRUCTURING RESERVES**

The Company continues to review its structural expense base in a companywide effort to create a more streamlined organization, reduce expense growth, and provide funds for future growth initiatives. During 2013, Citizens introduced branch image capture on the teller line, which automated several key processes within the branch network.

The following table includes the activity in the exit costs and restructuring reserves:

	Severance	Facilities Costs	Fixed Assets	Other	Total
	(in millions)				
Reserve balance as of January 1, 2011	\$ 9	\$ 15	\$	\$ 1	\$ 25
Additions	9	43	9	4	65
Utilization	(9)	(6)	(2)	(5)	(22)
Reserve balance as of December 31, 2011	9	52	7		68
Additions	2	1		4	7
Reversals	(1)	(11)			(12)
Utilization	(7)	(22)		(4)	(33)
Reserve balance as of December 31, 2012	3	20	7		30
Additions	6	15	7	3	31
Reversals	(1)	(4)			(5)
Utilization	(6)	(13)	(8)	(3)	(30)
Reserve balance as of December 31, 2013	\$ 2	\$ 18	\$ 6	\$ 0	\$ 26

In the year ended December 31, 2013, the Company reversed \$5 million and recorded \$31 million in noninterest expense for restructuring charges. The reversed restructuring charges consisted primarily of lease termination costs of \$4 million and employee termination costs of \$1 million. The recorded restructuring charges consisted primarily of employee termination costs of \$6 million, lease termination costs of \$15 million, fixed asset writeoffs of \$7 million, and \$3 million of other costs.

In the year ended December 31, 2012, the Company recorded a \$7 million charge to noninterest expense for other restructuring charges consisting primarily of lease termination costs of \$1 million, employee termination costs of \$2 million, and miscellaneous other expense of \$4 million.

NOTE 24 BUSINESS SEGMENTS

The Company is managed by its CEO on a divisional basis. The Company's two business segments are Consumer Banking and Commercial Banking. The business segments are determined based on the products and services

provided or the type of customer served. Each division has a Vice Chairman who reports directly to the CEO. The CEO has final authority over resource allocation decisions and performance assessment. The business segments reflect this management structure and the manner in which financial information is currently evaluated by the CEO. Non-segment operations are classified as Other, which includes corporate functions, the Treasury function, the securities portfolio, wholesale funding activities, intangible assets, Community Development, non-core assets, and other unallocated assets, liabilities, revenues and expenses.

Segment results are determined based upon the Company's management reporting system, which assigns balance sheet and income statement items to each of the business segments. The process is designed around the Company's organizational and management structure and, accordingly, the

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results derived are not necessarily comparable with similar information published by other financial institutions. A description of each reportable segment and table of financial results is presented below.

Consumer Banking The Consumer Banking segment focuses on retail customers and small businesses with annual revenues of up to \$25 million. It offers traditional banking products and services, including checking, savings, home loans, student loans, credit cards, business loans and financial management services. It also operates an indirect auto financing business, providing financing for both new and used vehicles through auto dealerships. The segment's distribution channels include a branch network, ATMs and a work force of experienced specialists ranging from financial consultants, mortgage loan officers and business banking officers to private bankers.

Commercial Banking The Commercial Banking segment targets companies with annual revenues from \$25 million to \$2 billion and provides a full complement of financial products and solutions, including loans, leases, trade financing, deposits, cash management, foreign exchange, interest rate risk management, corporate finance and capital markets advisory capabilities. It focuses on small and middle-market companies and has dedicated teams with industry expertise in government banking, not-for-profit, healthcare, technology, asset finance, franchise finance, asset-based lending, commercial real estate, private equity and sponsor finance. While the segment's business development efforts are predominantly focused on our twelve-state core footprint, some of its specialized industry teams also operate selectively on a national basis (such as healthcare, asset finance and franchise finance). Commercial Banking is organized by teams that target different client segments. A key component of the segment's growth strategy is to expand its loan portfolio by originating high-quality commercial loans, which produce revenues consistent with its financial objectives and complies with its conservative credit policies. Commercial underwriting is driven by cash flow analysis supported by collateral analysis and review. The commercial lending teams offer a wide range of commercial loan products, including commercial real estate loans; working capital loans and lines of credit; demand, term and time loans; and equipment, inventory and accounts receivable financing.

As of and for the Year Ended December 31, 2013

	Consumer Banking	Commercial Banking	Other	Consolidated
	(in millions)			
Net interest income (expense)	\$ 2,176	\$ 1,031	\$ (149)	\$ 3,058
Noninterest income	1,025	389	218	1,632
Total revenue	3,201	1,420	69	4,690
Noninterest expense	2,522	635	4,522	7,679
Profit (loss) before provision for credit losses	679	785	(4,453)	(2,989)

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Provision for credit losses	308	(7)	178	479
Income (loss) before income tax expense	371	792	(4,631)	(3,468)
Income tax expense (benefit)	129	278	(449)	(42)
Net income (loss)	\$ 242	\$ 514	\$ (4,182)	\$ (3,426)
Total Average Assets	\$ 46,465	\$ 35,229	\$ 39,172	\$ 120,866

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	Consumer Banking	Commercial Banking	Other	Consolidated
	(in millions)			
Net interest income (expense)	\$ 2,197	\$ 1,036	\$ (6)	\$ 3,227
Noninterest income	1,187	349	131	1,667
Total revenue	3,384	1,385	125	4,894
Noninterest expense	2,691	625	141	3,457
Profit (loss) before provision for credit losses	693	760	(16)	1,437
Provision for credit losses	408	63	(58)	413
Income before income tax expense	285	697	42	1,024
Income tax expense	100	244	37	381
Net income	\$ 185	\$ 453	\$ 5	\$ 643
Total Average Assets	\$ 47,824	\$ 33,474	\$ 46,368	\$ 127,666

As of and for the Year Ended December 31, 2011

	Consumer Banking	Commercial Banking	Other	Consolidated
	(in millions)			
Net interest income	\$ 2,204	\$ 929	\$ 187	\$ 3,320
Noninterest income	1,128	343	240	1,711
Total revenue	3,332	1,272	427	5,031
Noninterest expense	2,524	605	242	3,371
Profit before provision for credit losses	808	667	185	1,660
Provision for credit losses	400	92	390	882
Income (loss) before income tax expense	408	575	(205)	778
Income tax expense (benefit)	143	202	(73)	272
Net income (loss)	\$ 265	\$ 373	\$ (132)	\$ 506
Total Average Assets	\$ 46,071	\$ 29,800	\$ 52,473	\$ 128,344

In addition to non-segment operations, Other includes certain reconciling items in order to translate the segment results that are based on management accounting practices into consolidated results. For example, Other includes goodwill and the associated \$4.4 billion goodwill impairment charge recorded in 2013. Management accounting practices utilized by the Company as the basis for presentation for segment results include the following:

FTP adjustments. The Company utilizes an FTP system to eliminate the effect of interest rate risk from the segments' net interest income because such risk is centrally managed within the Treasury function. The FTP system credits (or charges) the segments with the economic value of the funds created (or used) by the segments. The FTP system provides a funds credit for sources of funds and a funds charge for the use of funds by each segment. The summation of the interest income / expense and FTP charges / credits for each segment is its designated net interest income. The variance between the Company's cumulative FTP charges and cumulative FTP credits is allocated to the individual business segments.

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Provision for credit losses allocations. Provision for credit losses is allocated to each business segment based on actual net charge-offs that have been recognized by the business segment. The difference between the consolidated provision for credit losses and the business segments' net charge-offs is reflected in Other.

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

Expense allocations. Noninterest expenses incurred by centrally managed operations or business lines that directly support another business line's operations are charged to the applicable business line based on its utilization of those services.

Goodwill. For impairment testing purposes, the Company allocates goodwill to its Consumer Banking and Commercial Banking reporting units. For management reporting purposes, the Company presents the goodwill balance (and any related impairment charges) in Other.

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

NOTE 25 EARNINGS PER SHARE

	Year Ended December 31,		
	2013	2012	2011
	(dollars in millions, except share data)		
Numerator:			
Net (loss) income	\$ (3,426)	\$ 643	\$ 506
Net (loss) income available to common shareholders	(3,426)	643	506
Denominator:			
Weighted-average common shares outstanding basic	3,382	3,382	3,382
Weighted-average common shares outstanding diluted	3,382	3,382	3,382
Earnings (loss) per common share:			
Basic	\$ (1,013,131.98)	\$ 190,245.51	\$ 149,548.13
Diluted	(1,013,131.98)	190,245.51	149,548.13

The Company had 3,382 shares issued and outstanding as of December 31, 2013, 2012, and 2011. The Company did not have dilutive shares during the periods presented.

NOTE 26 SHARE-BASED COMPENSATION

RBS Group grants stock-based compensation awards to employees of the Company pursuant to its various long-term incentive plans. These plans are administered by the Group Performance and Remuneration Committee of the RBSG Board of Directors. All stock-based compensation awards granted to employees have been settled in RBSG shares.

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Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***Restricted Share Units*

A restricted share unit is the right to receive shares of stock on a future date, which may be subject to time-based vesting conditions and/or performance-based vesting conditions. Time-based restricted share units granted historically have generally become vested ratably over a three-year period. Performance-based restricted share units granted historically have generally become vested at the end of a three-year performance period, depending on the level of performance achieved during such period as compared to specified RBS Group, divisional and/or functional performance guideposts and subject to the further adjustment at the discretion of the Group Remuneration and Performance Committee of the RBSG Board of Directors.

The fair value of each award is determined on the grant date. All awards (including those with cliff or ratably vesting) are expensed on a straight-line basis. With respect to performance-based awards, over the performance and requisite service period (i.e., vesting period) of the award, the number of shares of stock that will be issued is adjusted upward or downward based upon the probability of achievement of performance (in the case of performance-based awards) and the ultimate number of shares issued and the related compensation cost recognized as expense is based on actual performance levels.

The following table summarizes the activity related to our restricted share unit plans:

	Year Ended December 31,					
	2013		2012		2011	
	Restricted Share Units	Weighted-Average Grant Price	Restricted Share Units	Weighted-Average Grant Price	Restricted Share Units	Weighted-Average Grant Price
Nonvested, January 1,	22,865,810	\$ 6.14	23,490,759	\$ 6.49	20,333,225	\$ 6.23
Granted	6,363,919	4.66	9,477,611	4.41	8,519,076	7.05
Vested	(4,208,789)	6.68	(8,379,848)	5.22	(3,726,990)	6.22
Forfeited	(5,241,973)	7.03	(1,722,712)	5.93	(1,634,552)	6.79
Nonvested, December 31,	19,778,967	\$ 5.31	22,865,810	\$ 6.14	23,490,759	\$ 6.49

Share Options

RBS Group awarded share options to certain employees under the ESOP, which were subject to clawback provisions and, in some cases, performance conditions. The last ESOP award was granted in 2009 and vested three years later in 2012. There are no remaining unvested ESOP awards. All unexercised options expire by April 2019.

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The following table summarizes the activity related to share options for the periods presented:

	Year Ended December 31,					
	2013		2012		2011	
	Number of Options	Weighted- Average Exercise Price	Number of Options	Weighted- Average Exercise Price	Number of Options	Weighted- Average Exercise Price
Outstanding at January 1,	1,594,237	\$ 4.37	2,109,150	\$ 4.39	2,136,128	\$ 4.40
Exercised	(127,469)	4.25				
Forfeited/Canceled			(514,913)	4.47	(26,978)	4.61
Outstanding at December 31,	1,466,768	\$ 4.38	1,594,237	\$ 4.37	2,109,150	\$ 4.39
Exercisable at December 31,	1,466,768					

Compensation expense related to the above share based plans was \$27 million, \$29 million, and \$29 million for the years ended December 31, 2013, 2012, and 2011, respectively. At December 31, 2013, the total unrecognized compensation expense for nonvested equity awards granted was \$20 million. This expense is expected to be recognized over a weighted-average period of three years. No share-based compensation costs were capitalized or dividends paid by RBS Group, during the years ended December 31, 2013, 2012 and 2011.

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	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
OPERATING INCOME:			
Income from bank subsidiaries and associated banks, excluding equity in undistributed income:			
Dividends	\$ 210	\$ 175	\$
Interest	13	13	20
Management and service fees	26	42	44
Income from nonbank subsidiaries and associated nonbank companies excluding equity in undistributed income:			
Interest			1
Securities gains		1	
All other operating income	2	4	19
Total operating income	251	235	84
OPERATING EXPENSE:			
Salaries and employee benefits	38	52	50
Interest expense	24	4	
All other expenses	43	39	40
Total operating expense	105	95	90
Income (loss) before taxes and undistributed income	146	140	(6)
Applicable income taxes	(22)	(9)	(14)
Income before undistributed income of subsidiaries and associated companies	168	149	8
Equity in undistributed (losses) income of subsidiaries and associated companies:			
Bank	(3,595)	501	488
Nonbank	1	(7)	10

Net (loss) income	\$ (3,426)	\$ 643	\$ 506
Other comprehensive (loss) income, net of income taxes:			
Net pension plan activity arising during the period	\$ 17	\$ (7)	\$ (27)
Net unrealized derivative instrument gains arising during the period	1		
Other comprehensive income (loss) activity of the Parent Company Only, net of income taxes	18	(7)	(27)
Other comprehensive (loss) income activity of Bank subsidiaries, net of income taxes	(354)	223	190
Total other comprehensive (loss) income, net of income taxes	(336)	216	163
Total comprehensive (loss) income	\$ (3,762)	\$ 859	\$ 669

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In accordance with federal and state banking regulations, dividends paid by the Company's banking subsidiaries to the Company itself are generally limited to the retained earnings of the respective banking subsidiaries unless specifically approved by the appropriate bank regulator. The Company declared and paid RBS total common stock dividends of \$1.2 billion in 2013. There were \$150 million in common stock dividends in 2012 and no common stock dividends in 2011.

CFG Parent Company**Condensed Balance Sheets**

	December 31,	
	2013	2012
	(in millions)	
ASSETS:		
Cash and due from banks	\$ 494	\$ 694
Loans and advances to:		
Bank subsidiaries	459	460
Related bank holding companies	1	8
Investments in subsidiaries:		
Bank subsidiaries	19,522	23,545
Nonbank subsidiaries	73	92
Other assets	178	184
TOTAL ASSETS	\$ 20,727	\$ 24,983
LIABILITIES:		
Long-term debt due to:		
Nonbank subsidiaries	\$	\$ 295
Unaffiliated companies	350	350
Related bank holding companies	1,000	
Other liabilities	181	209
TOTAL LIABILITIES	1,531	854
TOTAL STOCKHOLDERS' EQUITY	19,196	24,129
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 20,727	\$ 24,983

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****CFG Parent Company****Condensed Cash Flow Statements**

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
OPERATING ACTIVITIES			
Net (loss) income	\$ (3,426)	\$ 643	\$ 506
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Deferred income taxes	(11)	(12)	(29)
Gain on sales of assets		(1)	
Equity in undistributed losses (earnings) of subsidiaries	3,594	(494)	(498)
Net change in other liabilities	7	47	(9)
Net change in other assets	15	(20)	30
Other operating, net	1	(2)	
Total adjustments	3,606	(482)	(506)
Net cash provided (used) by operating activities	180	161	
INVESTING ACTIVITIES			
Proceeds from sales and maturities of securities available for sale		3	437
Payments for investments in and advances to subsidiaries	(220)	(800)	(508)
Sale or repayment of investments in and advances to subsidiaries	315	1,164	22
Other investing, net	(1)	(1)	
Net cash provided (used) by investing activities	94	366	(49)
FINANCING ACTIVITIES			
Proceeds from advances from subsidiaries		5	22
Repayment of advances from subsidiaries	(289)	(239)	(13)
Proceeds from issuance of long-term debt	1,000	350	
Dividends paid	(1,185)	(150)	
Net cash (used) provided by financing activities	(474)	(34)	9
Net (decrease) increase in cash and due from banks	(200)	493	(40)
Cash and due from banks at beginning of year	694	201	241

Cash and due from banks at end of period \$ 494 \$ 694 \$ 201

NOTE 28 OTHER OPERATING EXPENSE

The following table presents the details of other operating expense:

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Deposit insurance	\$ 85	\$ 98	\$ 117
Promotional expense	76	86	102
Settlements and operating losses	51	58	61
Postage and delivery	60	196	32
Other	256	271	370
Total other operating expense	\$ 528	\$ 709	\$ 682

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CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29 SUBSEQUENT EVENTS

The Company has evaluated events that have occurred subsequent to December 31, 2013 through March 12, 2014, the date the Consolidated Financial Statements were originally issued. In January 2014, the Company reached an agreement to sell 103 retail branches, including loans, deposits, and related branch premises located in Illinois. The agreement includes the sale of approximately \$1.1 billion in loans, \$5.3 billion in deposits and related branch premises. The all-cash transaction is expected to close in the second quarter of 2014. As a result of this transaction, the assets and liabilities related to the branches being sold have been classified as held for sale in the Consolidated Balance Sheet at December 31, 2013.

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UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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Table of Contents**CITIZENS FINANCIAL GROUP, INC.****CONSOLIDATED BALANCE SHEETS**

	March 31, 2014	December 31, 2013
	(unaudited)	(unaudited)
	(in millions, except share data)	
ASSETS:		
Cash and due from banks	\$ 2,852	\$ 2,757
Interest-bearing deposits in banks	299	233
Securities available for sale, at fair value	18,412	15,995
Securities held to maturity (estimated fair value of \$5,395 and \$4,257, respectively)	5,457	4,315
Other investment securities	935	935
Loans held for sale, at fair value	131	176
Other loans held for sale	1,248	1,078
Loans and leases	87,083	85,859
Less: Allowance for loan and lease losses	1,259	1,221
Net loans and leases	85,824	84,638
Derivative assets	626	650
Premises and equipment, net	574	592
Bank-owned life insurance	1,350	1,339
Goodwill	6,876	6,876
Due from broker		446
Other branch assets held for sale	40	46
Other assets (related party balances of \$2 and \$63, respectively)	2,268	2,078
TOTAL ASSETS	\$ 126,892	\$ 122,154
LIABILITIES AND STOCKHOLDERS EQUITY:		
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 25,681	\$ 24,931
Interest-bearing (related party balances of \$5 for both periods)	61,781	61,972
Total deposits	87,462	86,903
Deposits held for sale	5,188	5,277
Federal funds purchased and securities sold under agreements to repurchase	6,080	4,791
Other short-term borrowed funds	4,950	2,251
Derivative liabilities (related party balances of \$734 and \$835, respectively)	828	939
Deferred taxes, net	319	199
Long-term borrowed funds (related party balances of \$1,000 for both periods)	1,403	1,405
Other liabilities (related party balances of \$90 and \$27, respectively)	1,220	1,193

TOTAL LIABILITIES	107,450	102,958
Contingencies (refer to Note 9)		
STOCKHOLDERS EQUITY:		
Preferred stock:		
\$1.00 par value, 30,000 shares authorized, no shares outstanding at March 31, 2014, and December 31, 2013 and liquidation value per share of \$100,000		
Common stock:		
\$.01 par value, 5,000 shares authorized, 3,382 shares issued and outstanding at March 31, 2014 and December 31, 2013		
Additional paid-in capital	18,609	18,609
Retained earnings	1,376	1,235
Accumulated other comprehensive loss	(543)	(648)
TOTAL STOCKHOLDERS EQUITY	19,442	19,196
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 126,892	\$ 122,154

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

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CITIZENS FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2014	2013
	(unaudited)	(unaudited)
	(in millions, except per share amounts)	
INTEREST INCOME:		
Interest and fees on loans and leases (related party balances of \$18 and \$4, respectively)	\$ 730	\$ 759
Interest and fees on loans held for sale	1	4
Interest and fees on other loans held for sale	12	
Investment securities	149	120
Interest-bearing deposits in banks	1	3
Total interest income	893	886
INTEREST EXPENSE:		
Deposits (related party balances of \$0 and \$2, respectively)	33	61
Deposits held for sale	2	
Federal funds purchased and securities sold under agreement to repurchase (related party balances of \$13 and \$57, respectively)	15	59
Other short-term borrowed funds (related party balances of \$16 and \$0, respectively)	19	1
Long-term borrowed funds (related party balances of \$12 and \$1, respectively)	16	5
Total interest expense	85	126
Net interest income	808	760
Provision for credit losses	121	90
Net interest income after provision for credit losses	687	670
NONINTEREST INCOME:		
Service charges and fees (related party balances of \$2 and \$5, respectively)	139	161
Card fees	56	54
Trust and investment services fees	39	34
Foreign exchange and trade finance fees (related party balances of \$(6) and \$24, respectively)	22	24
Mortgage banking fees	20	46
Capital markets fees (related party balances of \$3 and \$2, respectively)	18	15
Bank-owned life insurance income	11	13

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Securities gains, net	25	52
Other-than-temporary impairment:		
Total other-than-temporary impairment losses	(34)	(49)
Portions of loss recognized in other comprehensive income (before taxes)	30	46
Net impairment losses recognized in earnings	(4)	(3)
Other income (related party balances of \$(53) and \$22, respectively)	32	37
Total noninterest income	358	433
NONINTEREST EXPENSE:		
Salaries and employee benefits	405	435
Outside services	83	85
Occupancy (related party balances of \$0 and \$1, respectively)	81	85
Equipment expense	64	68
Amortization of software	31	21
Other operating expense	146	127
Total noninterest expense	810	821
Income before income tax expense	235	282
Income tax expense	69	99
NET INCOME	\$ 166	\$ 183
Weighted-average number of shares outstanding:		
Basic	3,382	3,382
Diluted	3,382	3,382
Per common share information:		
Basic earnings	\$ 49,087.34	\$ 54,139.78
Diluted earnings	49,087.34	54,139.78
Dividends declared and paid to parent	7,392.08	11,827.32

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

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME**

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

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

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CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

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

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

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended March 31,	
	2014 (unaudited)	2013 (unaudited)
	(in millions)	
OPERATING ACTIVITIES		
Net income	\$ 166	\$ 183
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	121	90
Originations of mortgage loans held for sale	(307)	(1,297)
Proceeds from sales of mortgage loans held for sale	352	1,393
Amortization of terminated cash flow hedges (related party balances of \$12 and \$18, respectively)	12	20
Depreciation, amortization and accretion	96	103
Recovery of mortgage servicing rights	(4)	(6)
Securities impairment	4	3
Deferred income taxes	58	
Loss on disposal/impairment of premises and equipment	1	2
Gain on sales of:		
Securities available for sale	(25)	(52)
Decrease in other assets (related party balances of \$61 and \$11, respectively)	280	367
Decrease in other liabilities (related party balances of \$(38) and \$(215), respectively)	(54)	(84)
Net cash provided by operating activities	700	722
INVESTING ACTIVITIES		
Investment securities:		
Purchases of securities available for sale	(3,697)	(1,921)
Proceeds from maturities and paydowns of securities available for sale	694	1,484
Proceeds from sales of securities available for sale	711	1,569
Proceeds from sales of other investment securities		70
Purchases of securities held to maturity	(1,174)	
Proceeds from maturities and paydowns of securities held to maturity	40	
Net increase in interest-bearing deposits in banks	(66)	(1,902)
Net (decrease) increase in loans and leases	(1,486)	1,328
Net increase in bank-owned life insurance	(11)	(6)
Premises and equipment:		
Purchases	(7)	(30)
Capitalization of software	(40)	(44)
Net cash (used in) provided by investing activities	(5,036)	548

FINANCING ACTIVITIES		
Net increase (decrease) in deposits	470	(520)
Net increase in federal funds purchased and securities sold under agreements to repurchase	1,289	108
Net change in other short-term borrowed funds	2,700	(489)
Repayments of long-term borrowed funds	(3)	(3)
Dividends declared and paid to parent	(25)	(40)
Net cash provided by (used in) financing activities	4,431	(944)
Increase in cash and cash equivalents	95	326
Cash and cash equivalents at beginning of period	2,757	3,063
Cash and cash equivalents at end of period	\$ 2,852	\$ 3,389

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

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CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 BASIS OF PRESENTATION

Basis of Presentation

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

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

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

New Accounting Pronouncements

In January 2014, the FASB issued Accounting Standards Update No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. This amendment clarifies that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendment requires disclosure of (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. This amendment is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014 and is expected to have an immaterial impact on the Company's Consolidated Financial Statements.

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

periods within those annual periods, beginning after December 15, 2014 and is expected to have an immaterial impact on the Company's Consolidated Financial Statements.

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Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****NOTE 2 SECURITIES**

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

	March 31, 2014				December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in millions)								
<u>Available-for-Sale Securities</u>								
U.S. Treasury	\$ 15	\$	\$	\$ 15	\$ 15	\$	\$	\$ 15
State and political subdivisions	11		(1)	10	11		(1)	10
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	17,394	149	(88)	17,455	14,970	151	(128)	14,993
Other/non-agency	933	8	(34)	907	992	5	(45)	952
Total mortgage-backed securities	18,327	157	(122)	18,362	15,962	156	(173)	15,945
Total debt securities	18,353	157	(123)	18,387	15,988	156	(174)	15,970
Marketable equity securities	10	3		13	10	3		13
Other equity securities	12			12	12			12
Total equity securities	22	3		25	22	3		25
Total available-for-sale securities	\$ 18,375	\$ 160	\$ (123)	\$ 18,412	\$ 16,010	\$ 159	\$ (174)	\$ 15,995
<u>Held to Maturity Securities</u>								
Mortgage-backed securities:								
	\$ 3,947	\$	\$ (44)	\$ 3,903	\$ 2,940	\$	\$ (33)	\$ 2,907

Federal agencies and U.S. government sponsored entities							
Other/non-agency	1,510		(18)	1,492	1,375		(25) 1,350

Total held to maturity securities	\$ 5,457	\$	\$ (62)	\$ 5,395	\$ 4,315	\$	\$ (58) \$ 4,257
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Other Investment**Securities**

Federal Reserve Bank stock	\$ 462	\$	\$	\$ 462	\$ 462	\$	\$ 462
Federal Home Loan Bank stock	467			467	468		468
Venture capital and other investments	6			6	5		5

Total other investment securities	\$ 935	\$	\$	\$ 935	\$ 935	\$	\$ 935
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Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

The Company has reviewed its securities portfolio for other-than-temporary impairments. The following tables summarize those securities whose fair values are below carrying values, segregated by those that have been in a continuous unrealized loss position for less than twelve months, and those that have been in a continuous unrealized loss position for twelve months or longer:

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

	Less than 12 Months			December 31, 2013 12 Months or Longer			Total		
	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses
	(dollars in millions)								
State and political subdivisions	1	\$ 10	\$ (1)		\$	\$	1	\$ 10	\$ (1)
Mortgage-backed securities:									
Federal agencies and U.S. government sponsored entities	263	12,067	(158)	7	20	(2)	270	12,087	(160)

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Other/non-agency	22	1,452	(34)	19	490	(37)	41	1,942	(71)
Total mortgage-backed securities	285	13,519	(192)	26	510	(39)	311	14,029	(231)
Total	286	\$ 13,529	\$ (193)	26	\$ 510	\$ (39)	312	\$ 14,039	\$ (232)

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

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

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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

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

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

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

Cumulative credit losses recognized in earnings for impaired AFS debt securities held as of March 31, 2014 and 2013 were \$59 million and \$57 million, respectively. There were no credit losses recognized in earnings for the Company's HTM portfolio as of March 31, 2014 and 2013. The Company recognized \$4 million and \$3 million of credit related other-than-temporary impairment losses in earnings for the three months ended March 31, 2014 and 2013, respectively, related to non-agency MBS in the AFS portfolio. No impaired debt securities were sold during March 31, 2014 or 2013. Reductions in credit losses due to increases in cash flow expectations were \$1 million for the three months ended March 31, 2014 and 2013, and are presented in investment securities interest income on the Consolidated Statements of Operations. The Company does not currently have the intent to sell these debt securities, and it is not likely that the Company will be required to sell these debt securities prior to the recovery of their amortized cost bases. As of March 31, 2014 and 2013, \$30 million and \$46 million, respectively, of pretax non-credit related losses were deferred in OCI.

The Company has determined that credit losses are not expected to be incurred on the remaining agency and non-agency MBS identified with unrealized losses as of the current reporting date. The unrealized losses on these debt securities reflect the reduced liquidity in the MBS market and the increased risk spreads due to the uncertainty of the

U.S. macroeconomic environment. Therefore, the Company has determined that these debt securities are not other-than-temporarily impaired because the Company does not currently have the intent to sell these debt securities, and it is not likely that the Company will be required to sell these debt securities prior to the recovery of their amortized cost bases. Additionally, any subsequent increases in the valuation of impaired debt securities do not impact their recorded cost bases.

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Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

The amortized cost and fair value of debt securities at March 31, 2014 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Distribution of Maturities				Total
	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	
	(in millions)				
Amortized Cost:					
Available-for-sale debt securities					
U.S. Treasury	\$ 15	\$	\$	\$	\$ 15
State and political subdivisions				11	11
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities		37	2,746	14,611	17,394
Other/non-agency		67	81	785	933
Total available-for-sale debt securities	15	104	2,827	15,407	18,353
Held to maturity debt securities					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities				3,947	3,947
Other/non-agency				1,510	1,510
Total held to maturity debt securities				5,457	5,457
Total debt securities	\$ 15	\$ 104	\$ 2,827	\$ 20,864	\$ 23,810
Fair Value:					
Available-for-sale debt securities					
U.S. Treasury	\$ 15	\$	\$	\$	\$ 15
State and political subdivisions				10	10
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities		39	2,749	14,667	17,455
Other/non-agency		69	83	755	907
Total available-for-sale debt securities	15	108	2,832	15,432	18,387
Held to maturity debt securities					
Mortgage-backed securities:					

Federal agencies and U.S. government sponsored entities				3,903	3,903
Other/non-agency				1,492	1,492
Total held to maturity debt securities				5,395	5,395
Total debt securities	\$ 15	\$ 108	\$ 2,832	\$ 20,827	\$ 23,782

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

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

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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

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

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

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

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

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

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****NOTE 3 LOANS AND LEASES**

A summary of the loans and leases portfolio follows:

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

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

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

Loans pledged as collateral for FHLB borrowed funds totaled \$19 billion at March 31, 2014 and December 31, 2013. This collateral consists primarily of residential mortgages and home equity loans. Loans pledged as collateral to support the contingent ability to borrow at the FRB discount window, if necessary, totaled \$13.5 billion and \$13.9 billion at March 31, 2014 and December 31, 2013, respectively.

In March 2014, the Company purchased a portfolio of residential loans with an outstanding principal balance of \$483 million, a portfolio of auto loans with an outstanding principal balance of \$202 million and a portfolio of student loans with an outstanding principal balance of \$40 million. The Company also sold a portfolio of residential mortgage loans with an outstanding principal balance of \$126 million at a gain of \$2 million in March 2014. The Company

recognized MSRs of \$1 million related to this transaction. The Company had no external loan portfolio purchase or sale transactions during the three months ended March 31, 2013.

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

The ALLL is increased through a provision for credit losses that is charged to earnings, based on the Company's quarterly evaluation, and is reduced by net charge-offs and the ALLL associated with sold loans. See Note 1,

Significant Accounting Policies of the Company's audited Consolidated Financial Statements included elsewhere in this prospectus for a detailed discussion of ALLL methodologies and estimation techniques.

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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

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

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

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

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

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

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

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

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

	March 31, 2014			December 31, 2013		
	Commercial	Retail	Total	Commercial	Retail	Total
	(in millions)					
Individually evaluated	\$ 22	\$ 116	\$ 138	\$ 23	\$ 108	\$ 131
Formula-based evaluation	540	616	1,156	514	615	1,129

Allowance for credit losses	\$ 562	\$ 732	\$ 1,294	\$ 537	\$ 723	\$ 1,260
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For commercial loans and leases, the Company utilizes regulatory classification ratings to monitor credit quality. Loans with a "pass" rating are those that the Company believes will be fully repaid in accordance with the contractual loan terms. Commercial loans and leases that are "criticized" are those that have some weakness that indicates an increased probability of future loss. For retail loans, the Company primarily uses the loan's payment and delinquency status to monitor credit quality. The further a loan is past due, the greater the likelihood of future credit loss. These credit quality indicators for both commercial and retail loans are continually updated and monitored.

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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

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

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

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

	March 31, 2014				
	Current	1-29 Days Past Due	30-89 Days Past Due (in millions)	90 Days or More Past Due	Total
Residential, including originated home equity products	\$ 28,112	\$ 772	\$ 214	\$ 663	\$ 29,761
Home equity products serviced by others	1,826	152	37	60	2,075

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Other secured retail	10,649	501	53	13	11,216
Unsecured retail	3,697	139	68	52	3,956
Total	\$ 44,284	\$ 1,564	\$ 372	\$ 788	\$ 47,008

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

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Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)***Nonperforming Assets*

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

	March 31, 2014			December 31, 2013		
	Accruing and 90 Days or More Nonaccruing Delinquent	Total Nonperforming Loans and Leases	(in millions)	Accruing and 90 Days or More Nonaccruing Delinquent	Total Nonperforming Loans and Leases	(in millions)
Commercial	\$ 73	\$ 73		\$ 96	\$ 96	
Commercial real estate	144	155	11	169	169	
Leases		2	2			
Total commercial	217	230	13	265	265	
Residential, including originated home equity products	973	973		981	981	
Home equity products serviced by others	87	87		89	89	
Other secured retail	23	23		26	26	
Unsecured retail	21	50	29	22	55	33
Total retail	1,104	1,133	29	1,118	1,151	33
Total	\$ 1,321	\$ 1,363	\$ 42	\$ 1,383	\$ 1,416	\$ 33

A summary of other nonperforming assets is as follows:

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

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

A summary of key performance indicators is as follows:

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

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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

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

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

	March 31, 2014				
	Impaired Loans With a Related Allowance	Allowance on Impaired Loans	Impaired Loans Without a Related Allowance	Unpaid Contractual Balance	Total Recorded Investment in Impaired Loans
	(in millions)				
Commercial	\$ 80	\$ 13	\$ 42	\$ 168	\$ 122
Commercial real estate	65	9	30	216	95

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Total commercial	145	22	72	384	217
Residential, including originated home equity products	363	57	503	1,106	866
Home equity products serviced by others	90	14	23	127	113
Other secured retail	22	4	11	40	33
Unsecured retail	200	41		200	200
Total retail	675	116	537	1,473	1,212
Total	\$ 820	\$ 138	\$ 609	\$ 1,857	\$ 1,429

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

Additional information on impaired loans is as follows:

	Three Months Ended March 31,			
	2014		2013	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
	(in millions)			
Commercial	\$	\$	102	\$ 1
Commercial real estate	1		117	
Total commercial	1		219	1
Residential, including originated home equity products	6		849	2
Home equity products serviced by others	1		112	1
Other secured retail			32	
Unsecured retail	3		197	3
Total retail	10		1,190	6

Total	\$ 11	\$ 1,409	\$ 7	\$ 1,489
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The retail loan activity for the three months ended March 31, 2013 presented in the table above was restated to more accurately reflect the retail TDR activity for the period.

Troubled Debt Restructurings

A loan modification is identified as a TDR when the Company or a bankruptcy court grants the borrower a concession the Company would not otherwise make in response to the borrower's financial difficulties. TDRs typically result from the Company's loss mitigation efforts and are undertaken in order to improve the likelihood of recovery and continuity of the relationship. Citizen's loan modifications are handled on a case-by-case basis and are negotiated to achieve mutually agreeable terms that

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

maximize loan collectability and meet the borrower's financial needs. Concessions granted in TDRs for all classes of loans may include lowering the interest rate, forgiving a portion of principal, extending the loan term, lowering scheduled payments for a specified period of time, principal forbearance, or capitalizing past due amounts. A rate increase can be a concession if the increased rate is lower than a market rate for debt with risk similar to that of the restructured loan. TDRs for commercial loans and leases may also involve creating a multiple note structure, accepting non-cash assets, accepting an equity interest, or receiving a performance-based fee. In some cases a TDR may involve multiple concessions. The financial effects of TDRs for all loan classes may include lower income (either due to a lower interest rate or a delay in the timing of cash flows), larger loan loss provisions, and accelerated charge-offs if the modification renders the loan collateral-dependent. In some cases interest income throughout the term of the loan may increase if, for example, the loan is extended or the interest rate is increased as a result of the restructuring.

Because TDRs are impaired loans, the Company measures impairment by comparing the present value of expected future cash flows, or, when appropriate, collateral value, to the loan's recorded investment. Any excess of recorded investment over the present value of expected future cash flows or collateral value is recognized by creating a valuation allowance or increasing an existing valuation allowance. Any portion of the loan's recorded investment the Company does not expect to collect as a result of the modification is charged off at the time of modification.

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

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

	Primary Modification Types					
	Interest Rate Reduction⁽¹⁾			Maturity Extension⁽²⁾		
	Pre- Modification Outstanding Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Pre- Modification Outstanding Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Commercial	7	\$ 1	\$ 1	13	\$ 1	\$ 1
Commercial real estate	1					
Total commercial	8	1	1	13	1	1

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Residential, including originated home equity products	74	8	8	140	9	8
Home equity products serviced by others	16	1	1			
Other secured retail	24					
Unsecured retail	577	3	3			
Total retail	691	12	12	140	9	8
Total	699	\$ 13	\$ 13	153	\$ 10	\$ 9

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

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

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

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

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

Primary Modification Types

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

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

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

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

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

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

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

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

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

Concentrations of Credit Risk

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

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

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The following table presents balances of loans with these characteristics:

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

NOTE 5 MORTGAGE BANKING

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

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

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

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Changes related to MSR were as follows:

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

MSRs are presented in other assets on the Consolidated Balance Sheets.

The fair value of MSRs is estimated using a valuation model that calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions. The valuation model uses a static discounted cash flow methodology incorporating current market interest rates. A static model does not attempt to forecast or predict the future direction of interest rates; rather it estimates the amount and timing of future servicing cash flows using current market interest rates. The current mortgage interest rate influences the expected prepayment rate and therefore, the length of the cash flows associated with the servicing asset, while the discount rate determines the present value of those cash flows. Expected mortgage loan prepayment assumptions are obtained using the QRM Multi Component prepayment model. The Company periodically obtains third-party valuations of its MSRs to assess the reasonableness of the fair value calculated by the valuation model.

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

Three Months Ended March 31,
2014 **2013**
(dollars in millions)

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Fair value	\$ 193	\$ 152
Weighted-average life (in years)	5.2	3.9
Weighted-average constant prepayment rate	13.6%	19.0%
Weighted-average discount rate	10.3%	10.6%

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

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

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

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

NOTE 6 EMPLOYEE BENEFITS

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

qualified plan.

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

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

NOTE 7 INCOME TAXES***Income Tax Provision***

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

Deferred Tax Liability

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

NOTE 8 DERIVATIVES

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

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

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Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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

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

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

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

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

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

Institutional derivatives

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

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

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CITIZENS FINANCIAL GROUP, INC.

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Customer derivatives

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

Residential loan derivatives

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

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

Derivatives designated as hedging instruments

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

Cash flow hedges

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

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

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

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

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

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

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

Economic Hedges

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

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

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Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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

The Effect of Customer Derivatives and Economic Hedges on Net Income

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

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

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

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

NOTE 9 CONTINGENCIES

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

In part as a result of the extensive regulation, supervision, and examination of the Company's business, the Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by

governmental and self-regulatory agencies regarding our business certain of which may result in adverse judgments, settlements, fines, penalties, public or private censure, increased costs, required remediation, restriction on business activities, or other impact on the Company.

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

In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. The Company cannot predict with certainty if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants

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CITIZENS FINANCIAL GROUP, INC.

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seek substantial or indeterminate damages. Numerous issues may need to be resolved before liability can be reasonably estimated, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages and by addressing novel or unsettled legal issues relevant to the proceedings in question.

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

Consumer Products

The activities of the Company's bank subsidiaries are subject to extensive laws and regulations concerning unfair or deceptive acts or practices in connection with customer products. Certain of the bank subsidiaries' practices with respect to overdraft protection and other consumer products have not met applicable standards. The bank subsidiaries have implemented and are continuing to implement changes to bring their practices in conformity with applicable laws and regulations. In April 2013, the bank subsidiaries consented to the issuance of orders by the OCC and the FDIC (the Consent Orders). In the Consent Orders (which are publicly available and will remain in effect until terminated by the regulators), the bank subsidiaries neither admitted nor denied the regulators' findings that they had engaged in deceptive marketing and implementation of the bank's overdraft protection program, checking rewards programs, and stop-payment process for pre-authorized recurring electronic fund transfers. Under the Consent Orders, the bank subsidiaries paid a total of \$10 million in civil monetary penalties and are required to develop plans to provide restitution to affected customers. The amount of restitution is anticipated to be approximately \$8 million, and that amount is fully covered by an existing reserve. The Consent Orders also require the bank subsidiaries to cease and desist any operations in violation of Section 5 of the Federal Trade Commission Act, and to submit to the regulators periodic written progress reports regarding compliance with the Consent Orders. In addition, Citizens Bank, N.A. agreed to take certain remedial actions to improve its compliance risk management systems and to create a comprehensive action plan designed to achieve compliance with one of the Consent Orders. Restitution plans have been prepared and submitted for approval and Citizens Bank, N.A. has submitted for approval, and is in the process of implementing, its action plan for compliance with such Consent Order, as well as updated policies, procedures, and programs related to its compliance risk management systems.

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

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CITIZENS FINANCIAL GROUP, INC.

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Fair Labor Standards Act Litigation

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

Telephone Consumer Protection Act Litigation

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

LIBOR Litigation

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

Foreclosure-Related Expenses

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

Mortgage Repurchase Demands

The Company is an originator and servicer of residential mortgages and sells such mortgage loans in the secondary market and to government-sponsored entities. In the context of such sales, the Company makes certain representations and warranties regarding the characteristics of the underlying loans and, as a result, may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of those representations and warranties. Between the start

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of January 2009 and March 31, 2014, the Company has received approximately \$139 million in repurchase demands and \$97 million in indemnification payment requests in respect of loans originated, for the most part, since 2003. Of those claims presented, \$74 million was paid to repurchase residential mortgage loans, and \$32 million was incurred for indemnification costs to make investors whole. The Company repurchased mortgage loans totaling \$10 million and \$21 million for the three months ended March 31, 2014 and 2013, respectively. The Company incurred indemnification costs of \$6 million and \$3 million for the three months ended March 31, 2014 and 2013, respectively. The Company cannot estimate what the future level of repurchase demands will be or the Company's ultimate exposure, and cannot give any assurance that the historical experience will continue in the future. It is possible that the volume of repurchase demands will increase. In addition to the above, the Company has since December 2013 been responding to subpoenas issued by the Office of the Inspector General for the Federal Housing Finance Agency seeking information about loans sold to FNMA and the FHLMC from 2003 through 2011.

NOTE 10 DIVESTITURES AND BRANCH ASSETS AND LIABILITIES HELD FOR SALE

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

NOTE 11 FAIR VALUE MEASUREMENTS

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

Fair Value Option, Residential Mortgage Loans Held for Sale

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

The fair value of residential loans held for sale is derived from observable mortgage security prices and includes adjustments for loan servicing value, agency guarantee fees, and other loan level attributes which are mostly

observable in the marketplace. Credit risk does not significantly impact the valuation since loans are sold shortly after origination. Therefore, the Company classifies the residential mortgage loans held for sale in Level 2 of the fair value hierarchy.

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

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

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

Additional information regarding the company's significant accounting policies for determining fair value is provided in Note 1, Significant Accounting Policies in the Company's audited Consolidated Financial Statements included elsewhere in this prospectus.

Recurring Fair Value Measurements

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

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

instruments that are valued using this market approach include residential and commercial CMOs, specified pool mortgage pass-through securities and other debt securities issued by U.S. government-sponsored entities and state and political subdivisions.

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

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

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

Derivatives: The majority of the Company's derivatives portfolio is comprised of plain vanilla interest rate swaps, which are traded in over-the-counter markets where quoted market prices are not readily available. For these interest rate derivatives, fair value is determined utilizing models that use primarily market observable inputs, such as swap rates and yield curves. The pricing models used to value interest rate swaps calculate the sum of each instrument's fixed and variable cash flows, which are then discounted using an appropriate yield curve (i.e., LIBOR or OIS curve) to arrive at the fair value of each swap. The pricing models do not contain a high level of subjectivity as the methodologies used do not require significant judgment. The Company also considers certain adjustments to the modeled price which market participants would make when pricing each instrument, including a credit valuation adjustment that reflects the credit quality of the swap counterparty. The Company incorporates the effect of exposure to a particular counterparty's credit by netting its derivative contracts with the collateral available and calculating a credit valuation adjustment on the basis of the net position with the counterparty where permitted. The determination of this adjustment requires judgment on behalf of Company management; however, the total amount of this portfolio-level adjustment is not material to the total fair value of the interest rate swaps in their entirety. Therefore, interest rate swaps are classified as Level 2 in the valuation hierarchy.

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

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

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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

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

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

	Total	Level 1	Level 2	Level 3
	(in millions)			
Securities available for sale:				
Mortgage-backed securities	\$ 15,945	\$	\$ 15,945	\$
State and political subdivisions	10		10	
Equity securities	25	8	17	
U.S. Treasury	15	15		
Residential loans held for sale	176		176	
Derivative assets:				

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Interest rate swaps	677		677	
Foreign exchange contracts	94		94	
Other contracts	7		7	
Venture capital investments	5			5
Total assets	\$ 16,954	\$ 23	\$ 16,926	\$ 5
Derivative liabilities:				
Interest rate swaps	\$ 970	\$	\$ 970	\$
Foreign exchange contracts	87		87	
Other contracts	10		10	
Total liabilities	\$ 1,067	\$	\$ 1,067	\$

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

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

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

Nonrecurring Fair Value Measurements

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

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

MSRs: MSRs do not trade in an active market with readily observable prices. MSRs are classified as Level 3 since the valuation methodology utilizes significant unobservable inputs. At March 31, 2014 the fair value is calculated using the discounted cash flow model, the model which uses assumptions, including weighted-average life of 5.2 years (range of 1.7 - 7 years), weighted-average constant prepayment rate of 13.6% (range of 10.1% - 45.8%) and weighted-average discount rate of 10.3% (range of 9.6% - 12.6%). At December 31, 2013 the fair value is calculated using the discounted cash flow model, the model which uses assumptions, including weighted-average life of 5.4 years (range of 1.8- 7.4 years), weighted-average constant prepayment rate of 13% (range of 9.4% - 41.5%) and weighted-average discount rate of 10.8% (range of 10.2% - 13.1%). Refer to Note 1, Significant Accounting Policies and Note 9, Mortgage Banking in the Company's audited Consolidated Financial Statements included elsewhere in this prospectus.

Foreclosed assets: Foreclosed assets consist primarily of residential properties. Foreclosed assets are carried at the lower of carrying value or fair value less costs to dispose. Fair value is based upon independent market prices or

appraised values of the collateral and is classified as Level 2.

Goodwill: Goodwill is valued using unobservable inputs and is classified as Level 3. Fair value is calculated using the present value of estimated future earnings (discounted cash flow method). On a quarterly basis, the Company assesses whether or not impairment indicators are present.

The Company monitored events and circumstances during the first quarter of 2014 and did not observe any factors that would more likely than not reduce the fair value of one or more reporting units below its respective carrying value. Accordingly, goodwill was not tested for impairment

Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

during the first quarter of 2014. For additional information on the Company's goodwill impairment testing and the most recent goodwill impairment test, see Note 1, Significant Accounting Policies, Note 8 Goodwill and Note 19, Fair Value Measurements included in the Company's audited Consolidated Financial Statements included elsewhere in this prospectus.

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

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

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

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

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

(1)

In the three months ended March 31, 2014, impaired loans for which collection is dependent on the loan's collateral in the amount of \$138 million were written down to \$60 million, resulting in an impairment charge of \$75 million, which was charged to the ALLL. In the year ended December 31, 2013, impaired loans for which collection is dependent on the loan's collateral in the amount of \$161 million were written down to their fair value of \$74 million, resulting in an impairment charge of \$83 million, which was charged to the ALLL.

- (2) In the three months ended March 31, 2014, MSRs totaling \$208 million were evaluated for impairment and written down to \$182 million, resulting in an impairment recapture of \$4 million and a total cumulative valuation allowance of \$19 million. In the year ended December 31, 2013, MSRs totaling \$215 million were evaluated for impairment and written down to \$185 million, resulting in an impairment charge of \$47 million and a total cumulative valuation allowance of \$23 million.
- (3) In the three months ended March 31, 2014, foreclosed real estate accounted for at the lower of cost or fair value less costs to sell was written down to fair value of \$42 million, resulting in an impairment charge of \$1 million. In the year ended December 31, 2013, foreclosed real estate accounted for at the lower of cost or fair value less costs to sell was written down to fair value of \$49 million, resulting in an impairment charge of \$4 million.
- (4) In the year ended December 31, 2013, Goodwill totaling \$11.3 billion was written down to its implied fair value of \$6.9 billion, resulting in an impairment charge of \$4.4 billion. Fair value of \$6.9 billion was valued as of June 30, 2013.

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CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Disclosures about Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

Long-term borrowed funds	1,405	1,404	1,405	1,404
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Table of Contents**CITIZENS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****NOTE 12 REGULATORY MATTERS**

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

The following table presents capital and capital ratio information:

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

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

and paid RBS total common stock dividends of \$40 million.

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

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

NOTE 13 SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows:

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

NOTE 14 RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Net Unrealized	Net Unrealized	Defined	
	Gains (Losses) on	Gains (Losses) on	Benefit	
	Derivatives	Securities	Pension	Total AOCI
	(in millions)			

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Balance at December 31, 2012	\$ (240)	\$ 306	\$ (378)	\$ (312)
Other comprehensive loss before reclassifications	10	(54)		(44)
Other than temporary impairment not recognized in earnings on securities		(29)		(29)
Amounts reclassified from other comprehensive income	39	(31)		8
Net other comprehensive income (loss)	49	(114)		(65)
Balance at March 31, 2013	\$ (191)	\$ 192	\$ (378)	\$ (377)

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

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

Details about AOCI Components	Three Months Ended March 31,		Affected Line Item in the Consolidated Statements of Operations
	2014	2013	
	Amount Reclassified from AOCI (in millions)		
Reclassification adjustment for net derivative gains (losses) included in net income (loss):	\$ 18	\$ (5)	Interest income
	(29)	(54)	Interest expense
		(2)	Other net gains
	(11)	(61)	Total before tax
	(4)	(22)	Tax expense
	\$ (7)	\$ (39)	Loss, net of tax
Reclassification of net securities gains (losses) to net income (loss):	\$ 25	\$ 52	Net gains on sales of securities available for sale
	(4)	(3)	

			Net impairment losses recognized in earnings
	21	49	Total before tax
	7	18	Tax expense
	\$ 14	\$ 31	Income, net of tax
Reclassification of changes related to the employee benefit plan:	\$ (2)	\$	Salaries and employee benefits
	(2)		Total before tax
	(1)		Tax benefit
	\$ (1)	\$	Loss, net of tax
Total reclassification gains (losses)	\$ 6	\$ (8)	Income (loss), net of tax

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

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

NOTE 15 BUSINESS SEGMENTS

The Company is managed by its CEO on a divisional basis. The Company's two business segments are Consumer Banking and Commercial Banking. The business segments are determined based on the products and services provided, or the type of customer served. Each division has a Vice Chairman who reports directly to the CEO. The CEO has final authority over resource allocation decisions and performance assessment. The business segments reflect this management structure and the manner in which financial information is currently evaluated by the CEO. Non-segment operations are classified as Other, which includes corporate functions, the Treasury function, the securities portfolio, wholesale funding activities, intangible assets, Community Development, Non-Core assets, and other unallocated assets, liabilities, revenues and expenses.

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

Consumer Banking The Consumer Banking segment focuses on retail customers and small businesses with annual revenues of up to \$25 million. It offers traditional banking products and services, including checking,

savings, home loans, student loans, credit cards, business loans and financial management services. It also operates an indirect auto financing business, providing financing for both new and used vehicles through auto dealerships. The segment's distribution channels include a branch network, ATMs and a work force of experienced specialists ranging from financial consultants, mortgage loan officers and business banking officers to private bankers.

Commercial Banking The Commercial Banking segment primarily targets companies with annual revenues from \$25 million to \$2 billion and provides a full complement of financial products and solutions, including loans, leases, trade financing, deposits, cash management, foreign exchange, interest rate risk management, corporate finance and capital markets advisory capabilities. It focuses on small and middle-market companies and has dedicated

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teams with industry expertise in government banking, not-for-profit, healthcare, technology, asset finance, franchise finance, asset-based lending, commercial real estate, private equity and sponsor finance. While the segment's business development efforts are predominantly focused on the Company's twelve-state core footprint, some of its specialized industry businesses also operate selectively on a national basis (such as healthcare, asset finance and franchise finance). Commercial Banking is organized by teams that target different client segments. A key component of the segment's growth strategy is to expand its loan portfolio by originating high-quality commercial loans, which produce revenues consistent with its financial objectives and complies with its conservative credit policies. Commercial underwriting is driven by cash flow analysis supported by collateral analysis and review. The commercial lending teams offer a wide range of commercial loan products, including commercial real estate loans; working capital loans and lines of credit; demand, term and time loans; and equipment, inventory and accounts receivable financing.

As of and for the Three Months Ended March 31, 2014

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

As of and for the Three Months Ended March 31, 2013

	Consumer Banking	Commercial Banking	Other	Consolidated
	(in millions)			
Net interest income (expense)	\$ 548	\$ 253	\$ (41)	\$ 760
Noninterest income	257	101	75	433

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Total revenue	805	354	34	1,193
Noninterest expense	627	155	39	821
Profit (loss) before provision for credit losses	178	199	(5)	372
Provision for credit losses	83	(22)	29	90
Income (loss) before income tax expense	95	221	(34)	282
Income tax expense (benefit)	33	78	(12)	99
Net income (loss)	\$ 62	\$ 143	\$ (22)	\$ 183
Total Average Assets	\$ 47,173	\$ 34,968	\$ 41,595	\$ 123,736

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

FTP adjustments: The Company utilizes an FTP system to eliminate the effect of interest rate risk from the segments' net interest income because such risk is centrally managed within the Treasury function. The FTP system credits (or charges) the segments with the economic value of the funds created (or used) by the segments. The FTP system provides a funds credit for sources of funds and a funds charge for the use of funds by each segment. The summation of the interest income/expense and FTP charges/credits for each segment is its designated net interest income. The variance between the Company's cumulative FTP charges and cumulative FTP credits is allocated to the individual business segments.

Provision for credit losses allocations: Provision for credit losses is allocated to each business segment based on actual net charge-offs that have been recognized by the business segment. The difference between the consolidated provision for credit losses and the business segments' net charge-offs is reflected in Other.

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

Expense allocations: Noninterest expenses incurred by centrally managed operations or business lines that directly support another business line's operations are charged to the applicable business line based on its utilization of those services.

Goodwill: For impairment testing purposes, the Company allocates goodwill to its Consumer Banking and Commercial Banking reporting units. For management reporting purposes, the Company presents the goodwill balance (and any related impairment charges) in Other.

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

NOTE 16 SHARE-BASED COMPENSATION

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

Consolidated Financial Statements included elsewhere in this prospectus.

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

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

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	Three Months Ended March 31,	
	2014	2013
	(dollars in millions, except per share amounts)	
Numerator:		
Net income	\$ 166	\$ 183
Net income available to common shareholders	166	183
Denominator:		
Weighted-average common shares outstanding basic	3,382	3,382
Weighted-average common shares outstanding diluted	3,382	3,382
Earnings per common share:		
Basic	\$ 49,087.34	\$ 54,139.78
Diluted	49,087.34	54,139.78

NOTE 18 OTHER OPERATING EXPENSE

The following table presents the details of other operating expense:

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

NOTE 19 SUBSEQUENT EVENTS

The Company has evaluated events that have occurred subsequent to March 31, 2014 through May 30, 2014, the date the Consolidated Financial Statements were issued. On May 29, 2014, the Company purchased a portfolio of auto loans with outstanding balances of approximately \$150 million. On the same date, the Company entered into an agreement with the same party to purchase auto loans for future rolling 90-day periods that automatically renew until

termination by either party. For the first year, the agreement requires the purchase of a minimum of \$250 million of outstanding balances to a maximum of \$600 million per rolling 90-day period. For rolling 90-day periods after the first year, the minimum and maximum purchases are \$400 million and \$600 million, respectively. The Company may cancel the agreement at will with payment of a variable termination fee. After 3 years, there is no termination fee. The Company is not aware of any additional subsequent events which would require recognition or disclosure in the Consolidated Financial Statements.

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PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

	Amount to be paid
Registration fee	\$12,880
FINRA filing fee	15,500
Listing fee	*
Transfer agent's fees	*
Printing and engraving expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue Sky fees and expenses	*
Miscellaneous	*
Total	\$ *

*To be filed by amendment.

Each of the amounts set forth above, other than the Registration fee and the FINRA filing fee, is an estimate.

Item 14. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify directors and officers as well as other employees and individuals against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any threatened, pending or completed actions, suits or proceedings in which such person is made a party by reason of such person being or having been a director, officer, employee or agent to the Registrant. The Delaware General Corporation Law provides that Section 145 is not exclusive of other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise. The Registrant's Certificate of Incorporation and Bylaws provides for indemnification by the Registrant of its directors, officers and employees to the fullest extent permitted by the Delaware General Corporation Law.

Section 102(b)(7) of the Delaware General Corporation Law permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases, redemptions or other distributions or (iv) for any transaction from which the director derived an improper personal benefit. The Registrant's Certificate of Incorporation provides for such limitation of liability.

The Registrant maintains policies of insurance under which coverage is provided (a) to its directors and officers, in their respective capacities as such, against loss arising from a claim made for any actual or alleged wrongful act, and (b) to the Registrant with respect to payments which may be made by the Registrant to such officers and directors pursuant to the above indemnification provision or otherwise as a matter of law.

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The proposed form of Underwriting Agreement filed as Exhibit 1 to this Registration Statement provides for indemnification of directors and officers of the Registrant by the underwriters against certain liabilities.

Item 15. Recent Sales of Unregistered Securities.

Since three years before the date of the initial filing of this Registration Statement, the Registrant has sold the following securities without registration under the Securities Act of 1933, as amended:

On September 28, 2012, the Registrant issued and sold \$350,000,000 aggregate principal amount of 4.150% Subordinated Notes due 2022 pursuant to Rule 144A under the Securities Act. Net proceeds to the Registrant from the sale of the notes, after deduction of the discount, was \$346,391,500. Net proceeds were used for general corporate purposes. Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBS Securities Inc. acted as representatives of the initial purchasers.

On June 28, 2013, the Registrant issued and sold \$333,000,000 aggregate principal amount of 5.158% Fixed-to-Floating Callable Subordinated Notes due 2023 pursuant to Rule 144A under the Securities Act. The principal amount of this subordinated debt was equal to a special dividend paid to RBS on the same day. Together, these actions reduced the Registrant's common equity without reducing total regulatory capital.

On September 30, 2013, the Registrant issued and sold \$333,000,000 aggregate principal amount of 4.771% Subordinated Notes due 2023 pursuant to Rule 144A under the Securities Act. The principal amount of this subordinated debt was equal to a special dividend paid to RBS on the same day. Together, these actions reduced the Registrant's common equity without reducing total regulatory capital.

On December 2, 2013, the Registrant issued and sold \$334,000,000 aggregate principal amount of 4.691% Subordinated Notes due 2024 pursuant to Rule 144A under the Securities Act. The principal amount of this subordinated debt was equal to a special dividend paid to RBS on the same day. Together, these actions reduced the Registrant's common equity without reducing total regulatory capital.

Item 16. Exhibits and Financial Statement Schedules.

(a) The following exhibits are filed as part of this Registration Statement:

Exhibit Number	Description
1.1	Form of Underwriting Agreement*
3.1	Form of Amended and Restated Certificate of Incorporation of the Registrant*
3.2	Form of Amended and Restated Bylaws of the Registrant*

- 5.1 Opinion of Davis Polk & Wardwell LLP*
- 10.1 Form of Separation and Stockholder Agreement between the Registrant and The Royal Bank of Scotland Group plc*
- 10.2 Form of Transitional Services Agreement between the Registrant and The Royal Bank of Scotland Group plc*
- 10.3 Form of Trademark License Agreement between the Registrant and The Royal Bank of Scotland Group plc*

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Exhibit Number	Description
10.4	Form of Registration Rights Agreement between the Registrant and The Royal Bank of Scotland Group plc*
10.5	Form of Indemnification Agreement*
10.6	Employment Agreement, dated October 1, 2013, between the Registrant and Bruce Van Saun*
10.7	Offer Letter, dated November 6, 2013, between The Royal Bank of Scotland Group, plc and Bruce Van Saun*
10.8	Employment Agreement, dated March 21, 2007, between RBS North America Services, Inc. and Ellen Alemany*
10.9	Side Letter, dated March 21, 2007, between RBS North America Services, Inc. and Ellen Alemany*
10.10	Separation and Release Agreement, dated May 13, 2013, between the Registrant, The Royal Bank of Scotland Group, plc and Ellen Alemany*
10.11	Offer Letter, dated August 28, 2007, between RBS North America Services, Inc. and Robert D. Matthews, Jr.*
10.12	Side Letter, dated May 17, 2010, between the Registrant and Robert D. Matthews, Jr.*
10.13	Offer Letter, dated September 18, 2007, between RBS North America Services, Inc. and John Fawcett*
10.14	Offer Letter, dated May 23, 2008, between the Registrant and Brad Conner*
10.15	Offer Letter, dated September 13, 2010, between the Registrant and Nancy Shanik*
10.16	The Royal Bank of Scotland Group, plc 2007 Executive Share Option Plan*
10.17	Form of The Royal Bank of Scotland Group, plc 2007 Executive Share Option Plan Award Certificate*
10.18	Amended and Restated RBS Americas Deferred Compensation Plan, effective January 1, 2009, as amended August 30, 2013*
10.19	Amended and Restated Deferred Compensation Plan for Directors of Citizens Financial Group, Inc., effective January 1, 2009*
10.20	Amended and Restated Citizens Financial Group, Inc. Deferred Compensation Plan, effective January 1, 2009*
10.21	Citizens Financial Group, Inc. Severance Practice*
10.22	The Royal Bank of Scotland Group, plc 2010 Deferral Plan Rules*
10.23	Form of The Royal Bank of Scotland Group, plc 2010 Deferral Plan Award Certificate*
10.24	Form of The Citizens Financial Group, Inc. 2010 Deferral Plan Rules*
10.25	Rules of The Royal Bank of Scotland Group, plc 2010 Long Term Incentive Plan*
10.26	Form of The Royal Bank of Scotland Group, plc 2010 Long Term Incentive Plan Award Certificate*
10.27	Form of Rules of the Citizens Financial Group, Inc. 2010 Long Term Incentive Plan*
10.28	Form of Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan*
10.29	Form of Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan*

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Exhibit Number	Description
10.30	Form of Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan Award Agreement*
10.31	Form of Citizens Financial Group, Inc. 2014 Employee Stock Purchase Plan*
10.32	Citizens Financial Group, Inc. Director Compensation Policy*
10.33	RBS Citizens Financial Group, Inc. Performance Formula and Incentive Plan*
10.34	Form of The Royal Bank of Scotland Group, plc CFG Special (IPO) Award Certificate*
21.1	Subsidiaries of the Registrant*
23.1	Consent of Deloitte & Touche LLP
23.2	Consent of Davis Polk & Wardwell LLP (included in Exhibit 5.1)*
24.1	Power of Attorney (included on signature page to this Registration Statement)

*To be filed by amendment.

(b) No financial statement schedules are provided because the information called for is not required or is shown either in the financial statements or the notes thereto.

Item 17. Undertakings

The undersigned hereby undertakes the following:

(a) The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions referenced in Item 14 of this Registration Statement, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Stamford, State of Connecticut, on the 19th day of June, 2014.

CITIZENS FINANCIAL GROUP, INC.

By: /s/ Bruce Van Saun
 Name: Bruce Van Saun
 Title: Chairman and Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Bruce Van Saun, John Fawcett and Sheldon Goldfarb, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power to act separately and full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement and all additional registration statements pursuant to Rule 462(b) of the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them or his or her or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Bruce Van Saun Bruce Van Saun	Chairman and Chief Executive Officer (principal executive officer)	June 19, 2014
*	Director	June 19, 2014
Anthony Di Iorio		
/s/ Mark Casady Mark Casady	Director	June 19, 2014
*	Director	June 19, 2014
William P. Hankowsky		

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*	Director	June 19, 2014
Howard W. Hanna III		
*	Director	June 19, 2014
Charles J. Koch		
*	Director	June 19, 2014
Robert D. Matthews, Jr.		

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Signature	Title	Date
*	Director	June 19, 2014
Arthur F. Ryan		
*	Director	June 19, 2014
Shivan S. Subramaniam		
*	Director	June 19, 2014
Wendy A. Watson		
*	Director	June 19, 2014
Marita Zuraitis		
*	Executive Vice President and Chief Financial Officer (principal financial officer)	June 19, 2014
John Fawcett		
*	Executive Vice President and Controller (principal accounting officer)	June 19, 2014
Ronald S. Ohsberg		

*By: /s/ Bruce Van Saun
 Name: Bruce Van Saun
 Title: Attorney in Fact

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- 10.19 Amended and Restated Deferred Compensation Plan for Directors of Citizens Financial Group, Inc., effective January 1, 2009*

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Exhibit Number	Description
10.20	Amended and Restated Citizens Financial Group, Inc. Deferred Compensation Plan, effective January 1, 2009*
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