CITIZENS FINANCIAL GROUP INC/RI
Form 8-K
October 30, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): October 30, 2017

CITIZENS FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**001-36636**	**05-0412693**
(State or other jurisdiction of incorporation)	**(Commission File No.)**	**(IRS Employer Identification No.)**

One Citizens Plaza

Providence, RI	**02903**
(Address of principal executive offices)	**(Zip code)**

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

Not Applicable

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 under the Securities Act (17 CFR 230.405) or Rule 12b-2 under the Exchange Act (17 CFR 240.12b-2).

Emerging growth company

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

Item 8.01 Other Events.

On October 20, 2017, Citizens Financial Group, Inc. (Citizens) reported third quarter net income of $348 million, up 17% from $297 million in third quarter 2016 with earnings per diluted common share of $0.68, up 21% from $0.56 per diluted common share in third quarter 2016. Third quarter 2017 net income increased $30 million, or 9%, from second quarter 2017 and earnings per diluted common share increased $0.05, or 8%, from $0.63. On an Adjusted basis,* third quarter 2017 net income increased 25% and earnings per diluted common share increased 31% compared to third quarter 2016. Adjusted results exclude the impact of a third quarter 2016 net $19 million after-tax benefit from the sale of a Troubled Debt Restructuring portfolio (TDR Transaction), partially offset by other notable items largely associated with our efficiency and balance sheet optimization initiatives.

Return on Average Tangible Common Equity (ROTCE) of 10.1% in third quarter 2017 compares with 9.6% in second quarter 2017 and 8.6% in third quarter 2016, or 8.0% on an Adjusted basis.*

Citizens also announced that its board of directors declared a fourth quarter cash dividend of $0.18 per common share. The dividend is payable on November 15, 2017 to shareholders of record at the close of business on November 1, 2017.

* Please see important information on Key Performance Metrics and Non-GAAP Financial Measures at the end of this report for an explanation of our use of these metrics and non-GAAP financial measures and their reconciliation to GAAP financial measures. Adjusted results exclude restructuring charges, special items and/or notable items; Underlying results, as applicable, exclude a 1Q17 $23 million benefit related to the settlement of certain state tax matters and reclassify 2Q17 results for the pre-tax impact of $26 million of lease asset impairments to reflect their credit-related impact. Where there is a reference to Adjusted , Underlying or Adjusted/Underlying results in a paragraph, all measures that follow these references are on the same basis when applicable.

Third Quarter 2017 vs. Second Quarter 2017

Key Highlights

ROTCE* reached 10.1%, and net interest margin was up eight basis points to 3.05%. Third quarter highlights include a 7% increase in net income to common stockholders, as revenue growth of 3% was led by strength in net interest income, with continued loan growth and an eight basis point improvement in net interest margin. Provision expense remained relatively stable.

Results also reflect continued expense discipline, with positive operating leverage of 4.1% and a 2.5% improvement in the efficiency ratio to 59.4%. On an Underlying basis, operating leverage was 1.5% and the efficiency ratio improved 1%.*

Tangible book value per common share of $27.05 increased by 2%. Fully diluted average common shares outstanding decreased by 5.3 million shares.

Underlying results* reflect the reclassification in second quarter 2017 of a $26 million pre-tax impact related to impairments on aircraft lease assets from income and expense line items to credit-related costs. Adding this to provision expense of $70 million resulted in Underlying second quarter 2017 credit-related costs of $96 million. The lease impairments, which largely related to a non-core runoff portfolio, reduced second quarter 2017 noninterest income by $11 million and increased noninterest expense by $15 million.

Results

Total revenue of $1.4 billion increased 3%, with a 4% increase in net interest income and a 3% increase in noninterest income from second quarter levels that included the impact of finance lease impairments recorded in other income.

Net interest income of $1.1 billion increased $36 million, reflecting the benefit of loan growth, day count and an eight basis point improvement in net interest margin to 3.05%.

Net interest margin increased eight basis points to 3.05%, driven by improved yields on interest-earning assets, including the benefit of higher short-term interest rates, partially offset by higher funding costs. The rise in net interest margin includes a two basis point benefit tied to higher-than-expected commercial loan interest recoveries.

Noninterest income of $381 million increased $11 million given the impact of the second quarter finance lease impairments. Noninterest income before the impact of the finance lease impairments was stable, reflecting another record quarter in capital markets fees and an increase in service charges and fees and other income, offset by modest declines across other fee categories.

Noninterest expense of $858 million decreased $6 million from second quarter levels that included $15 million of operating lease impairments recorded in other expense. Before the impact of the lease impairments, noninterest expense increased $9 million, or 1%, largely reflecting an increase in salaries and employee benefits tied to higher revenue-based incentives and an increase in outside services, which included costs associated with our strategic initiatives, and expense associated with legacy home equity operational items.

Provision for credit losses of $72 million remained relatively stable and included a reserve build of $7 million, driven by an increase tied to reserves associated with estimated hurricane exposure. Underlying* total credit-related costs decreased $24 million from second quarter, which included the $26 million impact of lease residual impairments.

Efficiency ratio improved to 59.4% compared with 61.9%, or 60.4% before the impact of second quarter lease impairments; ROTCE of 10.1% improved from 9.6% in second quarter 2017.*

Balance Sheet

Average interest-earning assets remained relatively stable as strength in retail loans was offset by a reduction in the investment portfolio and commercial loans. Average loans and loans held for sale increased 0.4% with strength in retail and a slight decline in commercial given the impact of a second quarter sale of lower-return commercial loans and leases. Excluding the impact of the sale, average loans and loans held for sale increased 0.8%. Period-end loans and loans held for sale increased 1.5%.

Average deposits increased $2.2 billion, or 2%, driven by growth in term, money market and demand deposits.

Nonperforming loans and leases (NPLs) to total loans and leases ratio of 0.85% improved from 0.94%, reflecting a reduction in commercial NPLs. Allowance coverage of NPLs increased to 131% from 119%.

Net charge-offs of 24 basis points improved from 28 basis points, reflecting strong results in commercial and stable results in retail.

Robust capital strength with a common equity tier 1 (CET1) risk-based capital ratio of 11.1%.

Repurchased 6.5 million shares of common stock in the quarter, and including common dividends, returned $315 million in capital to shareholders.

Third Quarter 2017 vs. Third Quarter 2016

Key Highlights

Third quarter results reflect an 18% increase in net income available to common stockholders, led by revenue growth of 5% with a 12% increase in net interest income given 5.4% growth in average loans and loans held for sale and a 21 basis point increase in net interest margin. Prior year results reflect a net $19 million after-tax benefit tied to the impact of the third quarter 2016 TDR Transaction gain and other notable items. On an Adjusted basis,* which excludes the impact of the TDR Transaction gain and other third quarter 2016 notable items, net income available to common stockholders increased 26%.

Continued strong focus on top-line growth and expense management helped drive positive operating leverage of 6%, a 3.5% improvement in the efficiency ratio and a 1.6% improvement in ROTCE.* On an Adjusted basis,* operating leverage was 7% with efficiency ratio improvement of 3.9% and ROTCE improvement of 2.1%.

Fully diluted average common shares outstanding decreased by 19.0 million shares.

Results

Total revenue of $1.4 billion increased $63 million, or 5%, reflecting strong net interest income growth. On an Adjusted basis,* total revenue increased $130 million, or 10%, driven by strength in net interest income and noninterest income.

Net interest income increased 12% given 5.4% growth in average loans and loans held for sale and a sizable improvement in net interest margin.

Net interest margin increased 21 basis points to 3.05%, which reflects improved loan yields, driven by balance sheet optimization initiatives and higher rates, and a two basis point benefit tied to higher-than-expected commercial loan interest recoveries, partially offset by an increase in funding costs.

Noninterest income decreased 12% from higher third quarter 2016 levels that included a net $67 million TDR Transaction gain. On an Adjusted basis,* which excludes the TDR Transaction gain and other third quarter 2016 notable items, noninterest income increased 4% as strength in capital markets fees, card fees and letter of credit and loan fees was partially offset by lower mortgage banking fees, foreign exchange and interest rate products fees and service charges and fees.

Noninterest expense decreased 1%, from a higher third quarter 2016 level that included $36 million of notable items. On an Adjusted basis,* which excludes the notable items, noninterest expense increased 3%, largely reflecting higher salaries and employee benefits expense and outside services expense, driven by the impact of strategic growth initiatives.

Provision for credit losses decreased $14 million, or 16%, reflecting strong overall portfolio credit quality and lower net charge-offs.

ROTCE* of 10.1% improved 1.6%, from 8.6%; 8.0% on an Adjusted basis.*

Balance Sheet

Average interest-earning assets increased $5.8 billion, or 4%, driven by growth in loans and loans held for sale with a 6% increase in commercial and 5% increase in retail.

Average deposits increased $6.3 billion, or 6%, on strength in term, checking with interest, savings and demand deposits.

NPLs to total loans and leases ratio of 0.85% improved from 1.05%, reflecting a decrease in retail driven by real estate secured portfolios, as well as a reduction in commercial, largely tied to commodities-related credits. Allowance coverage of NPLs of 131% improved from 112%.

Net charge-offs of 24 basis points of loans improved from 32 basis points in third quarter 2016, due to a decrease in core commercial, a modest increase in core retail and improvement in the non-core portfolio.

Update on Plan Execution

Consumer Banking

Performance paced by solid loan growth with continued traction in mortgage, education and unsecured retail, along with improved loan yields, reflecting improving mix and higher rates.

Wealth management business continues to build scale and add capabilities highlighted by the launch of SpeciFi^{SM}, its new digital and investment advisory platform. Continued progress in migrating sales mix toward fee-based products, which represented 41% of investment sales in third quarter 2017 compared to 30% in third quarter 2016.

Repositioning mortgage business to refocus origination platform and drive enhanced conforming mortgage volume along with building out a direct-to-consumer product offering.

Commercial Banking

Strong year-over-year performance in fee income led by record results in Capital Markets with momentum in loan syndications, bond underwriting and M&A and advisory fees along with growth in card fees.

Continued balance sheet and customer growth, with 5% growth in average loans and loans held for sale from third quarter 2016, reflecting strength in Middle Market, Commercial Real Estate, Mid-corporate and Industry Verticals, Corporate Finance and Franchise Finance, as well as the benefit of geographic expansion initiatives.

Efficiency and balance sheet optimization strategies

TOP IV Program, which includes both efficiency and revenue initiatives, is underway and on track to meet end of 2018 run-rate pre-tax benefit of $95-$110 million.

Initiatives to shift loan portfolio mix to higher-return categories continue to deliver benefits, estimated at approximately 10 basis points of net interest margin improvement year over year.

Earnings highlights *($s in millions, except per share data)*	**3Q17**	**2Q17**	**3Q16**	**3Q17 change from 2Q17**		**3Q17 change from 3Q16**	
				$	**%**	**$**	**%**
Earnings							
Net interest income	$ 1,062	$ 1,026	$ 945	$ 36	4%	$ 117	12%
Noninterest income	381	370	435	11	3	(54)	(12)
Total revenue	1,443	1,396	1,380	47	3	63	5
Noninterest expense	858	864	867	(6)	(1)	(9)	(1)
Pre-provision profit	585	532	513	53	10	72	14
Provision for credit losses	72	70	86	2	3	(14)	(16)
Net income	348	318	297	30	9	51	17
Preferred dividends	7		7	7	NM		
Net income available to common stockholders	$ 341	$ 318	$ 290	$ 23	7	$ 51	18
Average common shares outstanding							
Basic (in millions)	500.9	506.4	519.5	(5.5)	(1)%	(18.6)	(4)%
Diluted (in millions)	502.2	507.4	521.1	(5.3)	(1)	(19.0)	(4)
Diluted earnings per share	$ 0.68	$ 0.63	$ 0.56	$ 0.05	8%	$ 0.12	21%
Key performance metrics*							
Net interest margin	3.05%	2.97%	2.84%	8bps		21bps	
Effective income tax rate	32.2	31.1	30.5	105		172	
Efficiency ratio	59	62	63	(253)		(347)	
Return on average common equity	6.9	6.5	5.8	39		105	
Return on average tangible common equity	10.1	9.6	8.6	56		155	
Return on average total assets	0.92	0.85	0.82	7		10	
Return on average total tangible assets	0.96%	0.89%	0.86%	7bps		10bps	
Capital adequacy(1,2)							
Common equity tier 1 capital ratio	11.1%	11.2%	11.3%				
Total capital ratio	13.8	14.0	14.2				
Tier 1 leverage ratio	9.9%	9.9%	10.1%				
Asset quality(2)							
Total nonperforming loans and leases as a % of total loans and leases	0.85%	0.94%	1.05%	(9)bps		(20)bps	
Allowance for loan and lease losses as a % of loans and leases	1.11	1.12	1.18	(1)		(7)	
Allowance for loan and lease losses as a % of nonperforming loans and leases	131	119	112	1,237		1,932	
Net charge-offs as a % of average loans and leases	0.24%	0.28%	0.32%	(4)bps		(8)bps	

1) Current reporting-period regulatory capital ratios are preliminary. Basel III ratios assume that certain definitions impacting qualifying Basel III capital will phase in through 2019.

2) Capital adequacy and asset-quality ratios calculated on a period-end basis, except net charge-offs.

Discussion of Results:

Third quarter 2017 net income available to common stockholders of $341 million increased $23 million, or 7%, from second quarter 2017 and diluted EPS of $0.68 increased $0.05, or 8%. Third quarter 2017 EPS reflects a 5.3 million reduction in fully diluted average common shares outstanding from second quarter 2017.

Second quarter 2017 results included a $26 million pre-tax impact related to impairments on aircraft lease assets. Underlying results reflect the reclassification of these items from income and expense line items to credit-related costs. Adding this to provision expense of $70 million resulted in Underlying second quarter 2017 credit-related costs of $96 million. The lease impairments, which largely relate to a non-core runoff portfolio, reduced noninterest income by $11 million and increased noninterest expense by $15 million.

Third quarter 2016 results included a $72 million pre-tax gain on the TDR Transaction which was partially offset by $8 million of home equity systems and operational items identified as part of a broader review in conjunction with the transaction. Additionally, the company utilized approximately $33 million of the gain to fund costs associated with efficiency and balance sheet optimization initiatives. Additional information related to the impact of the second quarter 2017 impairments and the third quarter 2016 TDR Transaction and related costs is detailed in the table below.

Adjusted and Underlying results*

	2Q17			3Q16			3Q17 change from	
($s in millions)	**Reported**	**Lease impairment impact**	**Underlying***	**Reported**	**Notable items**	**Adjusted***	**Underlying* 2Q17**	**Adjusted* 3Q16**
Net interest income	$ 1,026	$	$ 1,026	$ 945	$	$ 945	4%	12%
Noninterest income	370	11	381	435	(67)	368		4
Total revenue	1,396	11	1,407	1,380	(67)	1,313	3	10
Noninterest expense	$ 864	$ (15)	$ 849	$ 867	$ (36)	$ 831	1	3
Pre-provision profit	$ 532	$ 26	$ 558	$ 513	$ (31)	$ 482	5	21
Provision for credit losses	$ 70	$	$ 70	$ 86	$	$ 86	3	(16)
Lease impairment credit-related costs		26	26				NM	NM
Total credit-related costs*	$ 70	$ 26	$ 96	$ 86	$	$ 86	(25)	(16)
Net income available to common stockholders	$ 318	$	$ 318	$ 290	$ (19)	$ 271	7%	26%
Key performance metrics*								
Diluted EPS	$ 0.63	$	$ 0.63	$ 0.56	$ (0.04)	$ 0.52	8%	31%
ROTCE	9.6%		9.6%	8.6%	(56)bps	8.0%	56bps	211bps

Efficiency ratio	62%	(158)bps	60%	63%	43bps	63%	(95)bps	(390)bps
Operating leverage							1.5%	6.7%