MANPOWER INC /WI/
Form 10-K
February 19, 2010
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934:

For the fiscal year ended December 31, 2009
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 1-10686

MANPOWER INC.
(Exact name of registrant as specified in its charter)

WISCONSIN	39-1672779
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 MANPOWER PLACE MILWAUKEE, WISCONSIN	53212
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (414) 961-1000

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

Title of each class	Name of Exchange on which registered
Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the voting stock held by nonaffiliates of the registrant was $3,317,445,824 as of June 30, 2009. As of February 16, 2010, there were 78,667,931 of the registrant's shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts I and II incorporate information by reference from the Annual Report to Shareholders for the fiscal year ended December 31, 2009. Part III is incorporated by reference from the Proxy Statement for the Annual Meeting of Shareholders to be held on April 27, 2010.

PART I

The terms “Manpower,” “we,” “our,” “us,” or “the Company” refer to Manpower Inc. or Manpower Inc. and its consolidated subsidiaries, as appropriate in the context.

Item 1. Business

Introduction and History

Manpower Inc. is a world leader in the employment services industry. Our global network of nearly 4,000 offices in 82 countries and territories allows us to meet the needs of our clients in all industry segments, whether they are global, multinational or local companies. By offering a complete range of services, we can help any company – no matter where they are in their business evolution – raise productivity through improved strategy, quality, efficiency and cost reduction across their total workforce.

Manpower Inc.’s five major brands – Manpower, Manpower Professional, Elan, Jefferson Wells and Right Management – provide a comprehensive range of services for the entire employment and business cycle including:

- Permanent, temporary and contract recruitment – We find the best people for all types of jobs and industries at both the staff and professional levels under the Manpower, Manpower Professional and Elan brands.

- Employee assessment and selection – We provide a wide array of assessments to validate candidate skills and ensure a good fit between the client and the employee, which leads to higher employee retention rates.

- Training – We offer an extensive choice of training and development solutions that help our employees, associates and clients’ workforces to improve their skills and gain qualifications that will help them to succeed in the ever-changing world of work.

- Outplacement – Our Right Management brand is the world’s leading outplacement provider, helping our clients to better manage the human side of change by providing a positive way for employees who are transitioning out to make the right choice for the next step in their career. The countercyclical nature of the outplacement industry helps strengthen our portfolio during down economic cycles.

- Outsourcing – Under Manpower Business Solutions (MBS), we provide clients with outsourcing services related to human resources functions primarily in the areas of large-scale recruiting and workforce-intensive initiatives that are outcome based, thereby sharing in the risk and reward with our clients. Our solutions include: task outsourcing, vendor management, onsite HR services and Recruitment Process Outsourcing (RPO), where we are one of the largest providers of permanent and contingent recruitment in the world.

- Consulting – We are a leading global provider of integrated consulting solutions across the employment lifecycle. We help clients maximize the return on their human capital investments while assisting individuals to achieve their full potential. Our Right Management brand helps clients attract and assess top talent; develop and grow leaders; and engage and align people with strategy.

- Professional Services – Our Jefferson Wells brand is a high-value alternative to public accounting firms and other consulting groups, delivering professional services in the areas of risk advisory, tax, and finance and accounting.

This comprehensive and diverse business mix allows us to mitigate the cyclical effects of the national economies in which we operate.

Our leadership position also allows us to be a center for quality employment opportunities for people at all points in their career paths. In 2009, we found permanent and temporary jobs for three million people who work to help our more than 400,000 clients meet their business objectives. Seasoned professionals, skilled laborers, mothers returning to work, elderly persons wanting to supplement pensions and disabled individuals – all turn to the Manpower group of companies for employment. Similarly, governments of the nations in which we operate look to us to help reduce unemployment and train the unemployed with skills they need to enter the workforce. In this way, our Company is a bridge to permanent employment for those who desire it.

We, and our predecessors, have been in business since 1948, with shares listed on the New York Stock Exchange since 1967.

Our Internet address is www.manpower.com. We make available through our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. In addition, we also make available through our Internet website:

- our articles of incorporation and bylaws;
- our Manpower Code of Business Conduct and Ethics;
- our Corporate Governance Guidelines;
- the charters of the Audit, Executive Compensation and Nominating and Governance Committees of the Board of Directors;
- our guidelines for selecting board candidates;
- our categorical standards for relationships deemed not to impair independence of non-employee directors;
- our policy on services provided by independent auditors; and
- our regular update on corporate social responsibility.

Documents available on the website are also available in print for any shareholder who requests them. Requests may be made by writing to Mr. Kenneth C. Hunt, Secretary, Manpower Inc., 100 Manpower Place, Milwaukee, Wisconsin 53212. We are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

Our Operations

Americas

In the Americas, our operations under the Manpower and Manpower Professional brands are carried out through both branch and franchise offices. The total Americas segment had 808 branch and 220 franchise offices. In the U.S., where we earned 62% of the Americas' revenue, we had 530 branch and 205 stand-alone franchise offices as of December 31, 2009, as well as on-site locations at clients with significant permanent, temporary and contract recruitment requirements. In Mexico and Central America, we had 92 branch offices and in the South American Region, we had 151 branch and 9 franchise offices. We provide a number of central support services to our branches and franchises, which enable us to maintain consistent service quality throughout the region regardless of whether an office is a branch or franchise. In the U.S., we provide client invoicing and payroll processing of our contingent workers for all branch offices and some of our franchise offices through our Milwaukee headquarters.

Our franchise agreements provide the franchisee with the right to use the Manpower® or Manpower Professional® service mark and associated marks in a specifically defined exclusive territory. In the United States, franchise fees range from 2-3% of franchise sales. Our franchise agreements provide that in the event of a proposed sale of a franchise to a third party, we have the right to repurchase the franchise at the same price and on the same terms as proposed by the third party. We exercise this right and intend to continue to do so in the future if opportunities arise with appropriate prices and terms.

In the Americas, our Manpower operations provide a variety of employment services, including permanent, temporary and contract recruitment, assessment and selection, training, managed service solutions and outsourcing. During 2009 in this segment, approximately 41% of temporary and contract recruitment revenues were derived from placing office staff, 41% from placing industrial staff and 18% from placing professional and technical staff. For our U.S. operations in 2009, approximately 29% of the temporary and contract recruitment revenues were derived from placing office staff, 51% from placing industrial staff and 20% from placing professional and technical staff.

We also conduct business in the Americas under our Jefferson Wells and Right Management brands. These operations are discussed further in the following sections.

France

We are a leading employment service provider in France, operating under the Manpower and Manpower Professional brands. We conduct our operations in France and the surrounding region through 855 branch offices under the name of Manpower and 98 branch offices under the name Supplay.

The employment services market in France calls for a wide range of our services including permanent, temporary and contract recruitment, assessment and selection, and training. The temporary recruitment market is predominately focused on recruitment for industrial positions. In 2009, we derived approximately 62% of our temporary recruitment revenues in France from the supply of industrial staff, 21% from the supply of construction workers and 17% from the supply of office staff.

We also conduct business in France under our Jefferson Wells, Elan and Right Management brands. These operations are discussed further in the following sections.

EMEA (Europe, Middle East and Africa excluding France)

We are a leading provider of permanent, temporary and contract recruitment, assessment and selection, training and outsourcing services throughout Europe, the Middle East and Africa. Our largest operations are in Italy, Germany, the Netherlands, Norway, Spain, Sweden, and the United Kingdom. Collectively, we operate through 1,437 branch offices and 50 franchise offices in this region. Our franchise offices are located in Switzerland, where we own 49% of the franchise.

Manpower Italy, the largest operation in the EMEA segment, comprising 15% of EMEA revenues, is a leading employment services provider. As of December 31, 2009, Manpower Italy conducted operations under the Manpower and Manpower Professional brands through a network of 304 branch offices. It provides a comprehensive line of employment services including permanent, temporary and contract recruitment, assessment and selection, training and outsourcing. In 2009, approximately 5% of our temporary and contract recruitment revenues in Italy were derived from placing office staff, including contract center staff, 63% from placing industrial staff and 32% from placing professional and technical staff.

The second largest operation in this segment is Manpower U.K., comprising 11% of EMEA revenues. Manpower U.K. is a leading provider of employment services in the United Kingdom. As of December 31, 2009, Manpower U.K.

conducted operations in the United Kingdom under the Manpower and Manpower Professional brands through a network of 107 branch offices and also provided on-site services to clients who have significant permanent, temporary and contract recruitment requirements. During 2009, approximately 70% of Manpower U.K.'s temporary recruitment revenues were derived from the supply of office staff, 20% from the supply of industrial staff and 10% from the supply of technical staff.

We also own Brook Street Bureau PLC, or Brook Street, which operates through a total of 114 branch offices, separate from the Manpower and Manpower Professional brands in the United Kingdom. Its core business is secretarial, office and light industrial recruitment. Brook Street operates as a local network of branches supported by a national head office and competes primarily with local or regional independents. Brook Street's revenues are comprised of temporary and contract placements as well as permanent recruitment.

Also included in our EMEA operations is Elan, which is a leading IT and technical recruitment firm. In addition to IT and technical recruitment, Elan provides managed service solutions to clients, which enable them to recruit personnel efficiently and achieve ongoing cost savings. Elan provides services in 16 countries, with the largest operations in the United Kingdom.

During 2009 for our EMEA operations, approximately 31% of temporary and contract recruitment revenues were derived from placing office staff, 33% from placing industrial staff and 36% from placing professional and technical staff.

We also conduct business in EMEA under our Jefferson Wells and Right Management brands. These operations are discussed further in the following sections.

Asia Pacific

We operate under the Manpower and Manpower Professional brands through 202 branch offices in the Asia Pacific Region. The largest of these operations are located in Australia, China, India, Japan, and the Southeast Asia Region, all of which operate through branch offices. Our Asia Pacific operations provide a variety of employment services, including permanent, temporary and contract recruitment, assessment and selection, training and outsourcing. During 2009, approximately 69% of our Asia Pacific temporary and contract recruitment revenues were derived from placing office staff, 9% from placing industrial staff and 22% from placing professional and technical staff.

We also conduct business in Asia Pacific under our Jefferson Wells and Right Management brands. These operations are discussed further in the following sections.

Right Management

Right Management is the talent and career management expert within Manpower and helps clients win by designing and executing workforce solutions that align talent strategy with business strategy. Our expertise spans Talent Assessment, Leader Development, Organizational Effectiveness, Employee Engagement, and Workforce Transition and Outplacement. Right Management has more than 300 service locations in 50 countries. Today we serve 80% of the Fortune 500 and over 70% of the Fortune Global 500 companies by helping them to grow talent, reduce costs, accelerate performance and realize their business goals.

Right Management's Career Management capability includes Outplacement, Career Decision, Redeployment and Career Development solutions, designed to strategically mobilize and size workforces to meet client needs, while minimizing turnover and maintaining productivity.

Right Management's Talent Management capability includes: Talent Assessment solutions that provide assessment and actionable feedback on current talent, to forecast for future business needs; Leader Development solutions focused on creating organizational capacity through careful grooming of a client's most promising leader talent; Organizational Effectiveness solutions that facilitate the integration and alignment of the business strategy with a workable talent management strategy; and Employee Engagement solutions that help organizations identify the levels of engagement present within a given workforce population, set benchmarks by which to evaluate the level of engagement, and analysis to enable managers to understand and leverage the drivers of employee engagement unique to their organizations.

Jefferson Wells

Jefferson Wells delivers professional services in the areas of risk advisory, tax, and finance and accounting. Jefferson Wells' Centers of Expertise offer in-depth expertise for specific processes, industries and technical issues, enabling the company to mobilize a global network of resources and services to address specialized client needs. The company does not perform attestation work, and focuses on client needs to deliver independent, cost-effective results by providing solutions across a wide range of finance-related business functions.

Jefferson Wells employs highly experienced professionals who have significant practical, hands-on experience — often a blend of public accounting and industry experience with relevant professional credentials and accreditations. Jefferson Wells' professionals have extensive experience in a variety of industries, including: automotive, business services, communications, construction, education, energy and utilities, financial services, government, healthcare, hospitality, insurance, retail, technology and manufacturing.

The company serves clients, including Fortune 500, FTSE 350 and Global 1000 companies. Its mission has always been to provide exceptional service at competitive rates by putting resources into local offices, rather than a centralized, partner-based organization. This allows the company to keep their fees competitive, with experts available locally so travel and lodging expenses are nominal or non-existent. Jefferson Wells has operations in the United States, Canada, the United Kingdom, Germany, the Netherlands, South Africa and Hong Kong through 50 office locations. In partnership with our business alliances, Jefferson Wells delivers services in more than 40 countries and markets worldwide.

Competition

Introduction

We compete in the employment services industry by offering a complete range of services, including permanent, temporary and contract recruitment, assessment and selection, training, managed service solutions, outsourcing, consulting and professional services.

Our industry is large and fragmented, comprised of thousands of firms employing millions of people and generating billions of U.S. Dollars in annual revenues. It is also a highly competitive industry, reflecting several trends in the global marketplace such as the notably increasing demand for skilled people, employers' desire for more flexible working models and consolidation among clients and in the employment services industry itself. We manage these trends by leveraging established strengths, including one of the employment services industry's most recognized and respected brands; geographic diversification; size and service scope; an innovative product mix; and a strong client base. While staffing is an important aspect of our business, our strategy is focused on providing both the skilled employees our clients need and high-value workforce management, outsourcing and consulting solutions.

Client demand for employment services is dependent on the overall strength of the labor market and secular trends toward greater workforce flexibility within each of the countries and territories in which we operate. Improving economic growth typically results in increasing demand for labor, resulting in greater demand for our staffing services. Correspondingly, during periods of weak economic growth or economic contraction, the demand for our staffing services typically declines, while demand for our outplacement services typically accelerates.

During the last several years, secular trends toward greater workforce flexibility have had a favorable impact on demand for our services in several markets. As companies attempt to increase the variability of their cost base, the contemporary work solutions we provide help them to effectively address the fluctuating demand for their products or services. As the economy recovers, we believe employment services firms will play an increasing role in workforce strategy and talent acquisition due to the deep staff cuts many companies have made during the recession, particularly at large organizations.

Our client mix consists of both small- and medium-size businesses, which are based upon a local or regional relationship with our office network in each market, and large national/multinational client relationships, which comprised approximately 44% of our revenues in 2009. These large national and multinational clients will frequently enter into non-exclusive arrangements with several firms, with the ultimate choice among them being left to the local managers. As a result, employment services firms with a large network of offices compete most effectively for this business which generally has agreed-upon pricing or mark-up on services performed. Client relationships with small- and medium-size businesses tend to rely less upon longer-term contracts, and the competitors for this business are primarily locally-owned businesses.

Recruitment Services Market

Our portfolio of recruitment services includes permanent, temporary and contract recruitment of professionals, as well as administrative and industrial positions. All of these services are provided under the Manpower, Manpower Professional and Elan brands.

We are preparing for the global expansion and acceleration of our Professional Staffing business, particularly in the areas of Information, Communications and Technology (ITC), Engineering, and Finance and Accounting. These high-growth, high-profitability services, delivered primarily under the Manpower Professional brand and Elan, provide the in-demand skills our clients require. Professional Staffing will be a critical revenue stream for us in the future, as we continue to build our brand and attract the talent our clients need as skills shortages rise.

Our recruitment services also include our Recruitment Process Outsourcing (RPO) offering, where we take on the management of customized, large-scale recruiting and workforce productivity initiatives for clients in an exclusive outsourcing contract. Our RPO offering is delivered via Manpower Business Solutions (MBS), a dedicated business unit within the Manpower group of companies that specializes in the delivery of customized employment strategies and outcome-based solutions. Through our RPO offering, MBS manages any part or all of a client's permanent recruiting and hiring processes, from job profiling to on-boarding, globally or in a single location. The Managed Service Program (MSP) and RPO offerings provide specialty expertise in contingent workforce management and broader administrative functions. MSP services include overall program management, reporting and tracking, supplier selection and management and order distribution. Business Process Outsourcing (BPO) services include management of financial and administrative processes, including call center and customer service activities and accounting and payroll. Our proven experience, process and digital and physical network allow us to drive the per hire cost savings down through an end-to-end recruitment process.

The temporary recruitment market throughout the world is large and highly fragmented with more than 15,000 firms competing throughout the world. In most areas, no single company has a dominant share of the temporary and contract recruitment market. In addition to us, the largest publicly owned companies specializing in recruitment services are Adecco, S.A. (Switzerland), Randstad Holding N.V. (Netherlands) and Kelly Services, Inc. (U.S.).

The global RPO market was approximately $1.9 billion in 2009 and is projected to grow to $2.8 billion by 2013. RPO accounts for approximately 4% of the overall Human Resource Outsourcing market.

Historically, in periods of economic prosperity, the number of firms providing recruitment services has increased significantly due to the combination of a favorable economic climate and low barriers to entry. Recessionary periods generally result in a reduction in the number of competitors through consolidation and closures; however, historically this reduction has proven to be for a limited time as the following periods of economic recovery have led to a return in growth in the number of competitors. As we projected, due to the difficult economic environment this year, we saw many of our smaller, local competitors struggle, with many national markets consolidating further. In many markets we were able to improve market share and we see further opportunity to do so in the future.

Recruitment firms act as intermediaries in matching available permanent, temporary and contract workers to employer assignments. As a result, these firms compete both to recruit and retain a supply of permanent, temporary and contract workers and to attract clients to employ these workers. We recruit permanent, temporary and contract workers through a wide variety of means, including personal referrals, online resources and advertisements, and by providing an attractive compensation package in jurisdictions where such benefits are not otherwise required by law, including health insurance, vacation and holiday pay, incentive and pension plans and a recognition program.

Methods used to market recruitment services to clients vary depending on the client's need for permanent, temporary and RPO services, the local labor supply, the length of assignment and the number of workers required. Our full range of employment services and multiple brands enable us to cross-market to clients in order to leverage our relationships and expand our services provided, from outplacement services at Right Management to permanent recruitment services at Manpower Professional, to RPO services, etc. We compete by means of quality of service provided, scope of service offered, ability to source the right talent and price. Success in providing high quality recruitment services is a function of the ability to access a supply of available workers, select suitable individuals for a particular assignment and, in some cases, train available workers in skills required for an assignment. For MBS services, success is defined primarily by the ability to perform the recruitment function more effectively and efficiently than the client could perform those functions internally.

An important aspect in the selection of temporary and contract workers for an assignment is the ability of the recruitment firm to identify the skills, knowledge, abilities, and personal characteristics of a temporary worker and match their competencies or capabilities to an employer's requirements. We have a variety of proprietary programs for identifying and assessing the skill level of our associates, which are used in selecting a particular individual for a specific assignment. We believe that our assessment systems enable us to offer a higher quality service by increasing productivity, decreasing turnover and reducing absenteeism.

It is also important to be able to access a large network of skilled workers and to be able to "create" certain hard-to-find skills by offering training to available workers. Our competitive position is enhanced by our ability to offer a wide variety of skills, in some of the most important market segments, through the use of training systems. Our Manpower Direct TrainingSM online university provides over 5,000 hours of online courses that are accessible 24/7 and are free to our employees and associates to help them improve their skills. The courses cover a wide range of subjects in many languages and feature the latest information for a variety of fields, from learning the latest technology in the IT field, to brushing up on business management courses or software programs. This training can also enable students in any profession to further develop their skills, improve their employability and earn higher wages.

Career and Talent Management Consulting Services Market

Our Career and Talent Management consulting services are primarily provided under the Right Management brand. Right Management is the talent and career management expert within Manpower. The organization helps clients win in the changing world of work by designing and executing workforce solutions that align talent strategy with business strategy. Its expertise spans talent assessment, leader development, organizational effectiveness, employee engagement, and workforce transition and outplacement. With offices in over 50 countries, Right Management partners with companies of all sizes. More than 80% of Fortune 500 companies are currently working with Right Management to help them grow talent, reduce costs and accelerate performance. The market for these consulting and outplacement services is highly competitive. In the market for services required by global clients, there are several barriers to entry, such as the global coverage, specialized local knowledge and technology required to provide outstanding services to corporations on a global scale.

Our competitors in the consulting space related to Right Management's core capabilities include major firms that compete in serving the large employer worldwide, such as Mercer, Towers Watson, DDI and Hewitt Associates. Additional significant competition comes from smaller regional and boutique firms in this same space, along with firms in related areas such as management and technology consulting and human resource IT that are starting to compete in portions of the Talent Management space (e.g. Accenture, Kenexa). Public accounting and consulting firms such as PricewaterhouseCoopers and Deloitte & Touche are also competitors in this space, though these firms must provide their consulting services within the constraints of the auditor independence provisions of the Sarbanes-Oxley Act legislation.

Our competitors in the outplacement market include outplacement services firms such as Drake Beam Morin, Lee Hecht Harrison (owned by Adecco) and career service divisions of global employment services firms. Additionally, there are regional firms and numerous smaller boutiques operating in either limited geographic markets or providing limited services. Companies choose to provide outplacement services for several reasons. First, as the competition for attracting and retaining qualified employees increases, companies are increasingly attempting to distinguish themselves in the marketplace as attractive employers. Consequently, more companies are providing outplacement services as part of a comprehensive benefits package that provides for the well being of employees – not only during their period of employment, but also after their employment ceases. Additionally, when companies experience layoffs, many believe that providing outplacement services projects a positive corporate image and improves morale among the remaining employees. Finally, companies may provide outplacement services to reduce costs by preparing and assisting separated employees to find new employment, thereby diminishing employment-related litigation.

Companies augment their internal human resources professional staff with external consultants for many reasons. First, the growing importance and complexity of employee issues is creating an unprecedented theoretical and technical service expectation on human resources departments. Additionally, human resources departments have continued pressure to contain costs without minimizing the resources available to managers. Finally, companies increasingly choose to outsource non-core functions that can be addressed more effectively by outside professionals. These organizations look to Right Management for thought leadership and best practices on attracting and assessing organizational talent, leadership development and engaging and aligning the workforce.

Companies also choose Right Management for the high-tech, high-touch approach of our outplacement services and the range of expertise and solutions within our core capabilities that can be tailored to meet specific organizational and candidate needs. Our technology capabilities are integral to our services, particularly for outplacement. We have made significant investments in technology to augment our core services with online, 24/7 access and support for both clients and candidates. Our solutions include: Right Navigator TM, RightChoice TM, RightTrack SM, RightEverywhereTM, Right Connection ®, Right FasTrack SM, Right Access SM , iView TM and Wellness and Productivity Management, along with Job Banks and Resume Banks.

Professional Services

Jefferson Wells competes in the professional services industry as a high-value alternative to public accounting firms and other consulting groups. It delivers professional services in the areas of risk advisory, tax, and finance and accounting, focusing on client needs to deliver independent, cost-effective results by providing solutions across a wide range of finance-related business functions.

The professional services industry is highly competitive and comprised of public accounting firms, mid-level consulting firms and specialty consulting boutique firms. The “Big Four” public accounting firms are Deloitte & Touche, Ernst & Young, PricewaterhouseCoopers and KPMG. Competitors in the professional services market include Protiviti, Grant Thornton, Huron Consulting and Resources Global Professionals. Additionally, numerous smaller boutiques either operate in limited geographic markets or provide limited services. While public accounting and consulting firms can be primary competitors, these firms also frequently refer Jefferson Wells to assist clients with engagements where there are conflict-of-interest concerns. Because Jefferson Wells does not perform attestation work, it can provide an objective review of a client’s business processes, thus avoiding potential conflicts of interest.

Jefferson Wells employs highly experienced professionals who have significant practical, hands-on experience — often a blend of public accounting and industry experience with relevant professional credentials and accreditations. Jefferson Wells’ professionals have extensive experience in a variety of industries, including: automotive, business services, communications, construction, education, energy and utilities, financial services, government, healthcare, hospitality, insurance, retail, technology and manufacturing.

In an evolving global marketplace, a variety of market trends affect the professional services industry, primary among them are: increasing demand for highly experienced people, global business expansion with a need for consistent methodology and service delivery, and the high cost of full-time professionals with specialized skills. To meet these demands, Jefferson Wells' Centers of Expertise offer in-depth expertise for specific processes, industries and technical issues, enabling the company to mobilize a global network of resources and services to address specialized client needs. Its operational model seeks to provide exceptional service at competitive rates by putting resources into local offices, rather than a centralized, partner-based organization. This allows the company to keep its fees competitive, with experts available locally so travel and lodging expenses are nominal or non-existent.

Jefferson Wells serves clients, including Fortune 500, FTSE 350 and Global 1000 companies, via its network of 50 offices in the United States, Canada, England, Germany, The Netherlands, South Africa and Hong Kong. Its services are also delivered in more than 40 countries and markets worldwide through select business alliances.

Regulation

The employment services industry is closely regulated in all of the major markets in which we operate, except the United States and Canada. Employment services firms are generally subject to one or more of the following types of government regulation:

- regulation of the employer/employee relationship between the firm and its temporary and contract employees;
- registration, licensing, record keeping and reporting requirements; and
- substantive limitations on the operations or the use of temporary and contract employees by clients.

In many markets, the existence or absence of collective bargaining agreements with labor organizations has a significant impact on our operations and the ability of clients to use our services. In some markets, labor agreements are structured on an industry-wide, rather than company-by-company, basis. Changes in these collective bargaining agreements have occurred in the past and are expected to occur in the future and may have a material impact on the operations of employment services firms, including us.

In many countries, including the United States and the United Kingdom, employment services firms are considered the legal employers of temporary and contract workers. Therefore, laws regulating the employer/employee relationship, such as tax withholding or reporting, social security or retirement, anti-discrimination and workers' compensation, govern the firm. In other countries, employment services firms, while not the direct legal employer of temporary and contract workers, are still responsible for collecting taxes and social security deductions and transmitting such amounts to the taxing authorities.

In many countries, particularly in continental Europe and Asia, entry into the employment services market is restricted by the requirement to register with, or obtain licenses from, a government agency. In addition, a wide variety of ministerial requirements may be imposed, such as record keeping, written contracts and reporting. The United States and Canada do not presently have any form of national registration or licensing requirement.

In addition to licensing or registration requirements, many countries impose substantive restrictions on the use of temporary and contract workers. Such restrictions include regulations affecting the types of work permitted, the maximum length of assignment, wage levels or reasons for which temporary and contract workers may be employed. In some countries special taxes, fees or costs are imposed in connection with the use of temporary and contract workers. For example, temporary and contract workers in France are entitled to a 10% allowance for the uncertain duration of employment, which is eliminated if a full-time position is offered to them within three days after assignment termination. In some countries, the contract of employment with temporary and contract employees must differ from the length of assignment.

Our outplacement and consulting services generally are not subjected to governmental regulation in the markets in which we operate.

In the United States, we are subject to various federal and state laws relating to franchising, principally the Federal Trade Commission's Franchise Rules and analogous state laws which impact our agreements with our franchised operations. These laws and related rules and regulations impose specific disclosure requirements. Virtually all states also regulate the termination of franchises.

Also see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Legal Regulations."

Trademarks

We maintain a number of registered trademarks, trade names and service marks in the United States and various other countries. We believe that many of these marks and trade names, including Manpower®, Manpower Professional®, Right Management Consultants®, Jefferson Wells®, Brook Street®, Elan®, Ultraskill®, and Skillware®, have significant value and are materially important to our business. In addition, we maintain other intangible property rights. The trademarks have been assigned an indefinite life based on our expectation of renewing the trademarks, as required, without material modifications and at a minimal cost, and our expectation of positive cash flows beyond the foreseeable future.

Employees

We had approximately 28,000 full-time equivalent employees as of December 31, 2009. In addition, we estimate that we recruit on behalf of our clients approximately three million permanent, temporary and contract workers on a worldwide basis each year.

As described above, in most jurisdictions, we, as the employer of our temporary and contract workers or as otherwise required by applicable law, are responsible for employment administration. This administration includes collection of withholding taxes, employer contributions for social security or its equivalent outside the United States, unemployment tax, workers' compensation and fidelity and liability insurance, and other governmental requirements imposed on employers. In most jurisdictions where such benefits are not legally required, including the United States, we provide health and life insurance, paid holidays and paid vacations to qualifying temporary and contract employees.

Financial Information about Foreign and Domestic Operations

Note 15 to our consolidated financial statements sets forth the information required for each segment and geographical area for the years ended December 31, 2009, 2008 and 2007. Such note is found in our 2009 Annual Report to Shareholders and is incorporated herein by reference.

Item 1A. Risk Factors

FORWARD-LOOKING STATEMENTS

Statements made in this report that are not statements of historical fact are forward-looking statements. In addition, from time to time, we and our representatives may make statements that are forward-looking. All forward-looking statements involve risks and uncertainties. This section provides you with cautionary statements identifying, for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, important factors that could cause our actual results to differ materially from those contained in forward-looking statements made in this report or otherwise made by us or on our behalf. You can identify these forward-looking statements by forward-looking words such as “expect”, “anticipate”, “intend”, “plan”, “may”, “will”, “believe”, “seek”, “estimate”, and simil expressions. You are cautioned not to place undue reliance on these forward-looking statements.

The following are some of the factors that could cause actual results to differ materially from estimates contained in our forward-looking statements:

- cost structure of subsidiaries;
- management turnover;
- reorganizations;
- material changes in the demand from larger clients, including clients with which we have national, multi-national, or sole-supplier arrangements;
- availability of workers with the skills required by clients;
- increases in the wages paid to our associates;
- competitive market pressures, including pricing pressures;
- inability to pass along direct cost increases to clients;
- changes in demand for our specialized services, including assisting companies in complying with the Sarbanes-Oxley Act legislation, and outplacement services;

- our ability to successfully expand into new markets or offer new service lines;
- our ability to successfully invest in and implement information systems;
- unanticipated technological changes, including obsolescence or impairment of information systems;
- changes in client attitudes toward the use of staffing services;
- government, tax or regulatory policies adverse to the employment services industry;
- general economic conditions in domestic and international markets;
- interest rate and exchange rate fluctuations;
- difficulties related to acquisitions, including integrating the acquired companies and achieving the expected benefits;
- impairments to the carrying value of acquisitions and other investments resulting from poor financial performance or other factors;
- the risk factors disclosed below; and
- other factors that may be disclosed from time to time in our SEC filings or otherwise.

Some or all of these factors may be beyond our control. We caution you that any forward-looking statement reflects only our belief at the time the statement is made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made.

RISK FACTORS

Any significant economic downturn could result in our clients using fewer temporary and contract workers or becoming unable to pay us for our services on a timely basis or at all, which would materially adversely affect our business.

Because demand for recruitment services is sensitive to changes in the level of economic activity, our business may suffer during economic downturns. As economic activity begins to slow down, companies tend to reduce their use of temporary and contract workers before undertaking layoffs of their regular employees, resulting in decreased demand for temporary and contract workers. Significant declines in demand, and thus in revenues, can result in expense de-leveraging, which would result in lower profit levels.

In addition, during economic downturns companies may slow the rate at which they pay their vendors or become unable to pay their debts as they become due. If any of our significant clients does not pay amounts owed to us in a timely manner or becomes unable to pay such amounts to us at a time when we have substantial amounts receivable from such client, our cash flow and profitability may suffer.

The worldwide employment services industry is highly competitive with limited barriers to entry, which could limit our ability to maintain or increase our market share or profitability.

The worldwide employment services market is highly competitive with limited barriers to entry, and in recent years has been undergoing significant consolidation. We compete in markets throughout the world with full-service and specialized employment services agencies. Several of our competitors, including Adecco S.A., Randstad Holding N.V. and Kelly Services, Inc., have very substantial marketing and financial resources. Price competition in the staffing industry is intense and pricing pressures from competitors and clients are increasing. We expect that the level of competition will remain high in the future, which could limit our ability to maintain or increase our market share or our profitability.

Government regulations may result in prohibition or restriction of certain types of employment services or the imposition of additional licensing or tax requirements that may reduce our future earnings.

In many jurisdictions in which we operate, such as France and Germany, the employment services industry is heavily regulated. For example, governmental regulations in Germany restrict the length of contracts and the industries in which our associates may be used. In some countries, special taxes, fees or costs are imposed in connection with the use of our associates. For example, our associates in France are entitled to a 10% allowance for the uncertain duration of employment, which is eliminated if a full-time position is offered to them within three days after assignment termination. The countries in which we operate may, among other things:

- create additional regulations that prohibit or restrict the types of employment services that we currently provide;
- require new or additional benefits be paid to our associates;
- require us to obtain additional licensing to provide employment services; or
- increase taxes, such as sales or value-added taxes, payable by the providers of temporary and contract recruitment centers.

Any future regulations may have a material adverse effect on our financial condition, results of operations and liquidity because they may make it more difficult or expensive for us to continue to provide employment services.

Our acquisition strategy may have a material adverse effect on our business due to unexpected or underestimated costs.

From time to time, we acquire and invest in companies throughout the world, including franchises. The total cash consideration paid for acquisitions, net of cash acquired, was $21.6 million and $242.0 million in 2009 and 2008, respectively.

In February 2010, we entered into an agreement to acquire COMSYS IT Partners, Inc. (NASDAQ: CITP), a leading professional staffing firm. The agreement has been approved by the boards of directors of both companies. Subject to the terms of the agreement, the value of the consideration for each outstanding share of COMSYS common stock would be $17.65, for a total enterprise value of $431.0 million, including net debt retired by us at closing. The consideration is expected to be approximately 50% Manpower common stock and approximately 50% cash, unless we elect to pay all cash. The acquisition is expected to close in the second quarter of 2010.

We may make additional acquisitions in the future. Our acquisition strategy involves significant risks, including:

- difficulties in the assimilation of the operations, services and corporate culture of acquired companies;
- over-valuation by us of acquired companies;
- insufficient indemnification from the selling parties for legal liabilities incurred by the acquired companies prior to the acquisitions; and
- diversion of management’s attention from other business concerns.

These risks could have a material adverse effect on our business because they may result in substantial costs to us and disrupt our business. In addition, future acquisitions could materially adversely effect our business, financial condition, results of operations and liquidity because they would likely result in the incurrence of additional debt or dilution, contingent liabilities, an increase in interest expense and amortization expenses related to separately identified intangible assets. Possible impairment losses on goodwill and intangible assets with an indefinite life, or restructuring charges could also occur. For example, we recorded a goodwill and intangible asset impairment charge of $61.0 million in 2009 and $163.1 million in 2008 related to our acquisitions of Jefferson Wells and Right Management, respectively.

Intense competition may limit our ability to attract, train and retain the qualified personnel necessary for us to meet our clients’ staffing needs.

We depend on our ability to attract and retain qualified associates who possess the skills and experience necessary to meet the requirements of our clients. We must continually evaluate and upgrade our base of available qualified personnel through recruiting and training programs to keep pace with changing client needs and emerging technologies. Competition for individuals with proven professional skills, particularly employees with accounting and technological skills, is intense, and we expect demand for such individuals to remain very strong for the foreseeable future. Qualified personnel may not be available to us in sufficient numbers and on terms of employment acceptable to us. Developing and implementing training programs requires significant expenditures and may not result in the trainees developing effective or adequate skills. We may not be able to develop training programs to respond to our clients’ changing needs or retain associates who we have trained. The failure to recruit, train and retain qualified associates could materially adversely affect our business because it may result in an inability to meet our clients’ needs.

We may be exposed to employment-related claims and costs from clients or third parties that could materially adversely affect our business, financial condition and results of operations.

We are in the business of employing people and placing them in the workplaces of other businesses. Risks relating to these activities include:

- claims arising out of the actions or inactions of our associates, including matters for which we may have indemnified a client;
- claims by our associates of discrimination or harassment directed at them, including claims relating to actions of our clients;
- claims related to the employment of illegal aliens or unlicensed personnel;
- payment of workers' compensation claims and other similar claims;
- violations of wage and hour requirements;
- retroactive entitlement to employee benefits;
- errors and omissions of our associates, particularly in the case of professionals, such as accountants; and
- claims by our clients relating to our associates' misuse of clients' proprietary information, misappropriation of funds, other criminal activity or torts or other similar claims.

We may incur fines and other losses or negative publicity with respect to these problems. In addition, some or all of these claims may give rise to litigation, which could be time-consuming to our management team and costly and could have a negative impact on our business. We cannot be certain we will not experience these problems in the future.

We cannot be certain our insurance will be sufficient in amount or scope to cover all claims that may be asserted against us. Should the ultimate judgments or settlements exceed our insurance coverage, they could have a material effect on our results of operations, financial position and cash flows. We cannot be certain we will be able to obtain appropriate types or levels of insurance in the future, that adequate replacement policies will be available on acceptable terms, if at all, or that the companies from which we have obtained insurance will be able to pay claims we make under such policies.

If we lose our key personnel, then our business may suffer.

Our operations are dependent on the continued efforts of our officers and executive management and the performance and productivity of our local managers and field personnel. Our ability to attract and retain business is significantly affected by local relationships and the quality of service rendered. The loss of those key officers and members of management who have acquired significant experience in operating an employment services company on an international level may cause a significant disruption to our business. Moreover, the loss of our key managers and field personnel may jeopardize existing client relationships with businesses that continue to use our services based upon past relationships with these local managers and field personnel. The loss of such key personnel could materially adversely affect our operations, because it may result in an inability to establish and maintain client relationships and otherwise operate our business.

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Foreign currency fluctuations may have a material adverse effect on our operating results.

We conduct our operations in 82 countries and territories and the results of our local operations are reported in the applicable foreign currencies and then translated into U.S. Dollars at the applicable foreign currency exchange rates for inclusion in our consolidated financial statements. During 2009, approximately 87% of our revenues were generated outside of the United States, the majority of which were generated in Europe. Furthermore, approximately $756.9 million of our outstanding indebtedness as of December 31, 2009 was denominated in foreign currencies. Because of devaluations and fluctuations in currency exchange rates or the imposition of limitations on conversion of foreign currencies into U.S. Dollars, we are subject to currency translation exposure on the profits of our operations, in addition to economic exposure. This exposure could have a material adverse effect on our business, financial condition, cash flow and results of operations in the future because, among other things, it could cause our reported revenues and profitability to decline or debt levels and interest expense to increase.

As of December 31, 2009 and 2008, we had $757.3 million and $952.9 million of total debt, respectively. This level of debt could adversely affect our operating flexibility and put us at a competitive disadvantage.

Our level of debt and the limitations imposed on us by our credit agreements could have important consequences for investors, including the following:

- we will have to use a portion of our cash flow from operations for debt service rather than for our operations;
- we may not be able to obtain additional debt financing for future working capital, capital expenditures or other corporate purposes or may have to pay more for such financing;
- some or all of the debt under our current or future revolving credit facilities may be at a variable interest rate, making us more vulnerable to increases in interest rates;
- we could be less able to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions;
- we will be more vulnerable to general adverse economic and industry conditions; and
- we may be disadvantaged compared to competitors with less leverage.

The terms of our revolving credit facility permit additional borrowings, subject to certain conditions. If new debt is added to our current debt levels, the related risks we now face could intensify.

We expect to obtain the money to pay our expenses, to repay borrowings under our credit facility and to repay our other debt primarily from our operations. Our ability to meet our expenses thus depends on our future performance, which will be affected by financial, business, economic and other factors. We are not able to control many of these factors, such as economic conditions in the markets where we operate and pressure from competitors. The money we earn may not be sufficient to allow us to pay principal and interest on our debt and to meet our other debt obligations. If we do not have enough money, we may be required to refinance all or part of our existing debt, sell assets or borrow additional funds. We may not be able to take such actions on terms that are acceptable to us, if at all. In addition, the terms of our existing or future debt agreements, including the revolving credit facilities and our indentures, may restrict us from adopting any of these alternatives.

Our failure to comply with restrictive covenants under our revolving credit facilities and other debt instruments could trigger prepayment obligations.

Our failure to comply with the restrictive covenants under our revolving credit facilities and other debt instruments could result in an event of default, which, if not cured or waived, could result in us being required to repay these borrowings before their due date. If we are forced to refinance these borrowings on less favorable terms, our results of operations and financial condition could be adversely affected by increased costs and rates.

The lenders under our and our subsidiaries' credit facilities may be unwilling or unable to extend credit to us on acceptable terms or at all.

Our liquidity is dependent in part on our revolving credit facility, which is provided by a syndicate of banks. Each bank in the syndicate is responsible on a several, but not joint, basis for providing a portion of the loans under the facility. If any of the participants in the syndicate fails to satisfy its obligations to extend credit under the facility, the other participants refuse or are unable to assume its obligations and we are unable to find an alternative source of funding at comparable rates, our liquidity may be adversely affected or our interest expense may increase substantially.

Furthermore, a number of our subsidiaries maintain uncommitted lines of credit with various banks. Under the terms of these lines of credit, the bank is not obligated to make loans to the subsidiary or to make loans to the subsidiary at a particular interest rate. If any of these banks cancel these lines of credit or otherwise refuse to extend credit on acceptable terms, we may need to extend credit to those subsidiaries or the liquidity of our subsidiaries may be adversely affected.

The performance of our subsidiaries and their ability to distribute cash to our parent company may vary, negatively affecting our ability to service our debt at the parent company level or in other subsidiaries.

Since we conduct a significant portion of our operations through our subsidiaries, our cash flow and our consequent ability to service our debt depends in part upon the earnings of our subsidiaries and the distribution of those earnings to our parent company, or upon loans or other payments of funds by those subsidiaries to our parent company or to other subsidiaries. The payment of such dividends and the making of such loans and advances by our subsidiaries may be subject to legal or contractual restrictions, depend upon the earnings of those subsidiaries and be subject to various business considerations, including the ability of such subsidiaries to pay such dividends or make such loans and advances in a manner that does not result in substantial tax liability.

We are exposed to counterparty risk in our hedging arrangements.

From time to time we enter into arrangements with other parties to hedge our exposure to fluctuations in currency and interest rates, including forward contracts and swap agreements. A number of financial institutions similar to those that serve as counterparties to our hedging arrangements have been adversely affected by the global credit crisis and in some cases have been unable to fulfill their debts and other obligations. If any of the counterparties to our hedging arrangements become unable to fulfill their obligations to us, we may lose the financial benefits of these arrangements. The fair value of our derivative financial instruments related to foreign currency forward exchange contracts reflected in our consolidated balance sheets as of December 31, 2009 were assets of $0.4 million and liabilities of $0.9 million. We had no swap agreements outstanding as of December 31, 2009.

Our inability to secure letters of credit on acceptable terms may substantially increase our cost of doing business in various countries.

In a number of countries in which we conduct business we are obligated to provide guarantees or letters of credit to secure licenses, lease space or for insurance coverage. We typically receive these guarantees and letters of credits from a number of financial institutions around the world. In the event that we are unable to secure these arrangements from a bank, lender or other third party on acceptable terms, our liquidity may be adversely affected, there could be a disruption to our business or there could be a substantial increase in cost for our business.

The price of our common stock may fluctuate significantly, which may result in losses for investors.

The market price for our common stock has been and may continue to be volatile. For example, during 2009, the prices of our common stock as reported on the New York Stock Exchange ranged from a high of $61.48 to a low of $23.75. Our stock price can fluctuate as a result of a variety of factors, including factors listed in these “Risk Factors” and others, many of which are beyond our control. These factors include:

- actual or anticipated variations in our quarterly operating results;
- announcement of new services by us or our competitors;
- announcements relating to strategic relationships or acquisitions;
- changes in financial estimates or other statements by securities analysts; and
- changes in general economic conditions such as the current credit environment.

Because of this volatility, we may fail to meet the expectations of our shareholders or of securities analysts, and our stock price could decline as a result.

Wisconsin law and our articles of incorporation and bylaws contain provisions that could make the takeover of our company more difficult.

Certain provisions of Wisconsin law and our articles of incorporation and bylaws could have the effect of delaying or preventing a third party from acquiring us, even if a change in control would be beneficial to our shareholders. These provisions of our articles of incorporation and bylaws include:

- providing for a classified board of directors with staggered, three-year terms;
- permitting removal of directors only for cause;
- providing that vacancies on the board of directors will be filled by the remaining directors then in office; and
- requiring advance notice for shareholder proposals and director nominees.

In addition, the Wisconsin control share acquisition statute and Wisconsin’s “fair price” and “business combination” provisions limit the ability of an acquiring person to engage in certain transactions or to exercise the full voting power of acquired shares under certain circumstances. These provisions and other provisions of Wisconsin law could make it more difficult for a third party to acquire us, even if doing so would benefit our shareholders. As a result, offers to acquire us, which may represent a premium over the available market price of our common stock, may be withdrawn or otherwise fail to be realized. The provisions described above could cause our stock price to decline.

Improper disclosure of employee and client data could result in liability and harm our reputation.

Our business involves the use, storage and transmission of information about our employees, our clients and employees of our clients. We and our third party service providers have established policies and procedures to help protect the security and privacy of this information. It is possible that our security controls over personal and other data and other practices we and our third party service providers follow may not prevent the improper access to or disclosure of personally identifiable or otherwise confidential information. Such disclosure could harm our reputation and subject us to liability under our contracts and laws that protect personal data and confidential information, resulting in increased costs or loss of revenue. Further, data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions and countries in which we provide services. Our failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in legal liability or impairment to our reputation in the marketplace.

Outsourcing certain aspects of our business could result in disruption and increased costs.

We have outsourced certain aspects of our business to third party vendors that subject us to risks, including disruptions in our business and increased costs. For example, we have engaged third parties to host and manage certain aspects of our data center information and technology infrastructure and to provide certain back office support in several countries. Accordingly, we are subject to the risks associated with the vendor's ability to provide these services to meet our needs. Our operations will depend significantly upon their and our ability to make our servers, software applications and websites available and to protect our data from damage or interruption from human error, computer viruses, intentional acts of vandalism, labor disputes, natural disasters and similar events. If the cost of these services is more than expected, or if the vendor or we are unable to adequately protect our data and information is lost, or our ability to deliver our services is interrupted, then our business and results of operations may be negatively impacted.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We own properties at various locations worldwide, none of which are material. Most of our operations are conducted from leased premises and we do not anticipate any difficulty in renewing these leases or in finding alternative sites in the ordinary course of business.

Item 3. Legal Proceedings

We are involved in litigation of a routine nature and various legal matters, which are being defended and handled in the ordinary course of business.

The information required by this Item is set forth in our Annual Report to Shareholders for the fiscal year ended December 31, 2009, under the heading "Significant Matters Affecting Results of Operations" (pages 36 to 39), which information is hereby incorporated herein by reference.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

EXECUTIVE OFFICERS OF MANPOWER
(as of February 16, 2010)

Name of Officer	Office
Jeffrey A. Joerres Age 50	Chairman of Manpower since May 2001, and President and Chief Executive Officer of Manpower since April 1999. Senior Vice President – European Operations and Marketing and Major Account Development of Manpower from July 1998 to April 1999. A director of Artisan Funds, Inc. and Johnson Controls, Inc. A director of Manpower for more than five years. An employee of Manpower since July 1993.
Michael J. Van Handel Age 50	Executive Vice President, Chief Financial Officer of Manpower since January 2008. Executive Vice President, Chief Financial Officer and Secretary of Manpower from April 2002 to January 2008. Senior Vice President, Chief Financial Officer and Secretary of Manpower from August 1999 to April 2002. Senior Vice President, Chief Financial Officer, Treasurer and Secretary of Manpower from July 1998 to August 1999. An employee of Manpower since May 1989.
Barbara J. Beck Age 49	Executive Vice President of Manpower, President – Europe, Middle East and Africa since January 2006. A director of Ecolab Inc. since February 2008. Executive Vice President of Manpower – United States and Canadian Operations from January 2002 to December 2005. Independent consultant from August 2000 to January 2002. Area Vice President and General Manager of United States – West for Sprint Corporation from February 1996 to August 2000. An employee of Manpower since January 2002.
Jonas Prising Age 44	Executive Vice President of Manpower, President – The Americas of Manpower since January 2009. Executive Vice President of Manpower, President – United States and Canadian Operations from January 2006 to December 2008. Managing Director of Manpower Italy from July 2002 to December 2005. Director of Manpower Global Accounts – EMEA from June 1999 to June 2002. Prior to joining Manpower, held multiple international management positions with Electrolux from 1989 to May 1999. An employee of Manpower since June 1999.
Owen J. Sullivan Age 52	Executive Vice President of Manpower, and Chief Executive Officer of Right Management and Jefferson Wells since January 2005. Chief Executive Officer of Jefferson Wells International, Inc. from April 2003 to January 2005. Independent consultant from 2002 to 2003. President of the Financial Services Group – Metavante Corporation from 1999 to 2003. An employee of Manpower since April 2003.
Francoise Gri Age 52	Executive Vice President of Manpower, President – France since February 2007. Prior to joining Manpower, held various leadership roles with IBM from 1981 to February 2007 including: regional general manager of France, Belgium and Luxembourg; vice president of marketing and channels software for IBM EMEA; and executive of e-business solutions for IBM EMEA. An employee of Manpower since February 2007.
Darryl Green Age 49	Executive Vice President of Manpower, President –Asia-Pacific and Middle East Operations since January 2009. Executive Vice President of Manpower, President – Asia-Pacific Operations from May 2007 to December 2008. Prior to joining Manpower, served as CEO of Tata Teleservices. Previously, CEO of Vodafone Japan, a publicly listed mobile services provider. From 1989 to 1998, held various management positions within AT&T, including three years as President and CEO of its Japanese operations. An employee of Manpower since May 2007.

Mara E. Swan Age 50	Executive Vice President - Global Strategy and Talent since January 2009. Senior Vice President of Global Human Resources from August 2005 to December 2008. Prior to Manpower, served as Chief People Officer for the Molson Coors Brewing Company for its global operations. Previously, Human Resources Manager for Miller Brewing Company. An employee of Manpower since August 2005.
Kenneth C. Hunt Age 60	Senior Vice President, General Counsel and Secretary of Manpower since January 2008. Prior to joining Manpower, a shareholder with the law firm of Godfrey & Kahn, S.C. from 1981 to 2007. An employee of Manpower since January 2008.

OTHER INFORMATION

Audit Committee Approval of Audit-Related and Non-Audit Services

The Audit Committee of our Board of Directors has approved the following audit-related and non-audit services performed or to be performed for us by our independent registered public accounting firm, Deloitte & Touche LLP, in 2009:

(a) preparation and/or review of tax returns, including sales and use tax, excise tax, income tax, local tax, property tax, and value-added tax;

(b) consultation regarding appropriate handling of items on tax returns, required disclosures, elections and filing positions available to us;

(c) assistance with tax audits and examinations, including providing technical advice on technical interpretations, applicable laws and regulations, tax accounting, foreign tax credits, foreign income tax, foreign earnings and profits, U.S. treatment of foreign subsidiary income, and value-added tax, excise tax or equivalent taxes in foreign jurisdictions;

(d) advice and assistance with respect to transfer pricing matters, including the preparation of reports used by us to comply with taxing authority documentation requirements regarding royalties and inter-company pricing, and assistance with tax exemptions;

(e) consultation on various projects;

(f) advice regarding tax issues relating to our internal reorganizations;

(g) assistance with due diligence work;

(h) assistance with SEC comment letters;

(i) training for our internal audit and tax staffs;

(j) reviews of our quarterly financial statements; and

(k) assistance relating to reporting under and compliance with the federal securities laws and the rules and regulations promulgated thereunder, including the issuance of a consent.

PART II

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

In August 2007, the Board of Directors authorized the repurchase of 5.0 million shares of our common stock, not to exceed a total purchase price of $400.0 million. The authorization permitted share repurchases from time to time through a variety of methods, including open market purchases, block transactions, privately negotiated transactions, accelerated share repurchase programs, forward repurchase agreements or similar facilities. The following table shows the total amount of shares repurchased under this authorization during the fourth quarter of 2009.

ISSUER PURCHASES OF EQUITY SECURITIES

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan	Approximate number of shares that may yet be purchased
October 1 - 31, 2009	-	$ -	-	1,026,490
November 1 - 30, 2009	-	-	-	1,026,490
December 1 - 31, 2009	221(1)	-	-	1,026,490(2)

(1) Shares of restricted stock delivered by a director to Manpower, upon vesting, to satisfy tax withholding requirements.
(2) Not to exceed a total purchase price of $182.1 million.

The remaining information required by this Item is set forth in our Annual Report to Shareholders for the fiscal year ended December 31, 2009, under the heading “Note 16 - Quarterly Data” (page 75) and “Corporate Information” (page 78) and in our Proxy Statement for the Annual Meeting of Shareholders to be held on April 27, 2010, under the caption “Equity Compensation Plan Information”, which information is hereby incorporated herein by reference.

Item 6. Selected Financial Data

The information required by this Item is set forth in our Annual Report to Shareholders for the fiscal year ended December 31, 2009, under the heading “Selected Financial Data” (page 76), which information is hereby incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by this Item is set forth in our Annual Report to Shareholders for the fiscal year ended December 31, 2009, under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations" (pages 17 to 39), which information is hereby incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information required by this Item is set forth in our Annual Report to Shareholders for the fiscal year ended December 31, 2009, under the heading "Significant Matters Affecting Results of Operations" (pages 36 to 39), which information is hereby incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The information required by this Item is set forth in the financial statements and the notes thereto (pages 42 to 75) contained in our Annual Report to Shareholders for the fiscal year ended December 31, 2009, which information is hereby incorporated herein by reference.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports filed by us under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file under the Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. We carried out an evaluation, under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer and our Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, our Chairman and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

Internal Control over Financial Reporting

The Management Report on Internal Control Over Financial Reporting is set forth on page 39 in our Annual Report to Shareholders for the fiscal year ended December 31, 2009 which information is hereby incorporated herein by reference. The Independent Registered Public Accounting Firm's report with respect to the effectiveness of internal control over financial reporting is included on pages 41 of our Annual Report to Shareholders for the year ended December 31, 2009 which information is hereby incorporated herein by reference.

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant

(a) Executive Officers. Reference is made to “Executive Officers of Manpower” in Part I after Item 4.

(b) Directors. The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on April 27, 2010 under the caption “Election of Directors,” which information is hereby incorporated herein by reference.

(c) The board of directors has determined that Edward J. Zore, chairman of the audit committee, is an “audit committee financial expert.” Mr. Zore is “independent” as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act of 1934.

(d) Audit Committee. The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on April 27, 2010 under the caption “Meetings and Committees of the Board,” which information is hereby incorporated herein by reference.

(e) Section 16 Compliance. The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on April 27, 2010 under the caption “Section 16(a) Beneficial Ownership Reporting Compliance,” which information is hereby incorporated herein by reference.

(f) We have adopted a Code of Business Conduct and Ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer and controller. We have posted the Code on our Internet website at www.manpower.com.

Item 11. Executive Compensation

The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on April 27, 2010, under the caption “Executive and Director Compensation”; under the caption “Executive Compensation Committee Interlocks and Insider Participation”; and under the caption “Report of the Executive Compensation Committee of the Board of Directors,” which information is hereby incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on April 27, 2010, under the caption “Security Ownership of Certain Beneficial Owners” and under the caption “Security Ownership of Management”; and under the caption “Equity Compensation Plan Information,” which information is hereby incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on April 27, 2010, under the caption “Meetings and Committees of the Board,” which information is hereby incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item is set forth in our Proxy Statement for the Annual Meeting of Shareholders to be held on April 27, 2010, under the caption “Audit Committee Report,” which information is hereby incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) Financial Statements.

(a)(2) Financial Statement Schedule.

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule

SCHEDULE II—Valuation and Qualifying Accounts

(a)(3) Exhibits.

See (c) below.

Pursuant to Regulation S-K, Item 601(b)(4)(iii), Manpower hereby agrees to furnish to the Commission, upon request, a copy of each instrument and agreement with respect to long-term debt of Manpower and its consolidated subsidiaries which does not exceed 10 percent of the total assets of Manpower and its subsidiaries on a consolidated basis.

(c) Exhibits.

3.1 Articles of Incorporation of Manpower Inc. incorporated by reference to Annex C of the Prospectus, which is contained in Amendment No. 1 to Form S-4 (Registration No. 33-38684).

3.2 Amendment of Amended and Restated Articles of Incorporation of Manpower Inc., incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.

3.3 Amended and Restated By-laws of Manpower Inc., incorporated by reference to the Company's Current Report on Form 8-K dated April 28, 2009.

4.1 Fiscal and Paying Agency Agreement between Manpower Inc. and Citibank, N.A. as Fiscal Agent, Principal Paying Agent, Registrar and Transfer Agent and Citibank International PLC as Irish Paying Agent, dated as of June 1, 2005 (including the forms of Rule 144A Global Note and Regulation S Global Note, attached thereto as Exhibits A and B, respectively), incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.

4.2 Fiscal and Paying Agency Agreement between Manpower Inc. and Citibank, N.A. as Fiscal Agent, Principal Paying Agent, Registrar and Transfer Agent and Citibank International PLC as Irish Paying Agent, dated as of June 14, 2006 (including the form of Note attached thereto as Schedule 1), incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.

10.1 Amended and Restated Manpower Inc. Senior Management Performance-Based Deferred Compensation Plan, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2005. **

10.2(a) Five-Year Credit Agreement dated as of October 8, 2004 among Manpower Inc., the initial lenders named therein, Citibank N.A., Wachovia Bank, BNP Paribas, Bank One N.A., and The Royal Bank of Scotland, incorporated by reference to the Company's Current Report on Form 8-K dated October 14, 2004.

10.2(b) Amendment to Five-Year Credit Agreement dated as of March 14, 2005, incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.

10.2(c) Amendment No. 2 to the Credit Agreement dated as of January 10, 2006, incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

10.2(d) Amendment No. 3 to the Credit Agreement dated as of November 16, 2007, incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

10.2(e) Amendment No. 4 to the Credit Agreement dated as of October 16, 2009, incorporated by reference to the Company's Current Report on Form 8-K dated October 16, 2009.

10.3 Amended and Restated Manpower 1991 Executive Stock Option and Restricted Stock Plan, incorporated by reference to Form 10-Q of Manpower Inc. dated September 30, 1996. **

10.4 Manpower Savings Related Share Option Scheme, incorporated by reference to Amendment No. 1 to the Company's Registration Statement on Form S-4 (Registration No. 33-38684). **

10.5 Manpower 1990 Employee Stock Purchase Plan (Amended and Restated effective April 26, 2005), incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.

10.6 Manpower Retirement Plan, as amended and restated effective as of March 1, 1989, incorporated by reference to Form 10-K of Manpower PLC, SEC File No. 0-9890, filed for the fiscal year ended October 31, 1989. **

10.7 1994 Executive Stock Option and Restricted Stock Plan of Manpower Inc. (Amended and Restated October 29, 2002), incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002. **

10.8 Manpower Inc. 2007 Corporate Senior Management Incentive Plan dated as of May 2, 2007, incorporated by reference to the Company's Current Report on Form 8-K dated May 2, 2007. **

10.9(a) Employment Agreement between Jeffrey A. Joerres and Manpower Inc. dated as of February 20, 2008, incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. **

10.9(b) Severance Agreement between Jeffrey A. Joerres and Manpower Inc. dated as of February 20, 2008, incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. **

10.10(a) Employment Agreement between Michael J. Van Handel and Manpower Inc. dated as of February 20, 2008, incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. **

10.10(b) Severance Agreement between Michael J. Van Handel and Manpower Inc. dated as of February 20, 2008, incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. **

10.11(a) Assignment Agreement by and among Manpower Inc., Manpower Holdings Limited and Barbara Beck dated as of December 20, 2005, incorporated by reference to the Company's Current Report on Form 8-K dated December 20, 2005. **

10.11(b) Letter Agreement by and among Manpower Inc., Manpower Holdings Limited and Barbara Beck dated as of April 1, 2008, incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. **

10.12(a) Amended and Restated Assignment Agreement by and among Manpower Inc. and Jonas Prising dated as of December 29, 2008, incorporated by reference to the Company's Current Report on Form 8-K dated December 29, 2008. **

10.12(b) Employment Agreement between Francoise Gri and Manpower Inc. dated as of February 15, 2007, incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. **

10.12(c) Letter Agreement between Darryl Green and Manpower Inc. dated as of April 4, 2007, incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. **

10.13(a) Terms and Conditions Regarding the Grant of Awards to Non-Employee Directors under the 2003 Equity Incentive Plan of Manpower Inc. (Amended and Restated Effective January 1, 2006), incorporated by reference to the Company's Current Report on Form 8-K dated December 19, 2005. **

10.13(b) Terms and Conditions Regarding the Grant of Awards to Non-Employee Directors under the 2003 Equity Incentive Plan of Manpower Inc. (Amended and Restated Effective January 1, 2008), incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. **

10.13(c) Manpower Inc. Compensation for Non-Employee Directors (Effective January 1, 2006), incorporated by reference to the Company's Current Report on Form 8-K dated December 19, 2005. **

10.13(d) Amended and Restated Severance Agreement between Barbara Beck and Manpower Inc. dated as of November 10, 2009, incorporated by reference to the Company's Current Report on Form 8-K dated November 10, 2009. **

10.13(e) Amended and Restated Severance Agreement between Jonas Prising and Manpower Inc. dated as of November 10, 2009, incorporated by reference to the Company's Current Report on Form 8-K dated November 10, 2009. **

10.13(f) Amended and Restated Severance Agreement between Owen J. Sullivan and Manpower Inc. dated as of November 10, 2009, incorporated by reference to the Company's Current Report on Form 8-K dated November 10, 2009. **

10.13(g) Amended and Restated Severance Agreement between Mara Swan and Manpower Inc. dated as of November 10, 2009, incorporated by reference to the Company's Current Report on Form 8-K dated November 10, 2009. **

10.13(h) Amended and Restated Severance Agreement dated November 10, 2008 between Manpower Inc. and Darryl Green, incorporated by reference to the Company's Current Report on Form 8-K dated December 3, 2008. **

10.13(i) Severance Agreement dated February 15, 2007 between Manpower Inc. and Francoise Gri, incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. **

10.13(j) Severance Agreement dated December 31, 2007 between Manpower Inc. and Kenneth C. Hunt, incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. **

10.13(k) 2003 Equity Incentive Plan of Manpower Inc. (Amended and Restated Effective April 28, 2009), incorporated by reference to the Company's Registration Statement on Form S-8 dated September 4, 2009. **

10.13(l) Form of Indemnification Agreement, incorporated by reference to the Company's Current Report on Form 8-K dated October 31, 2006.

10.14(a) Form of Nonstatutory Stock Option Agreement, incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. **

10.14(b) Form of Performance Share Unit Agreement, incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. **

10.14(c) Form of Restricted Stock Agreement (CEO Form), incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. **

10.14(d) Form of Restricted Stock Unit Agreement, incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009. **

10.14(e) Form of Career Share Unit Agreement, incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009. **

12.1 Statement Regarding Computation of Ratio of Earnings to Fixed Charges.

13 2009 Annual Report to Shareholders. Pursuant to Item 601(b)(13) of Regulation S-K, the portions of the Annual Report incorporated by reference in this Form 10-K are filed as an exhibit hereto.

14 Manpower Inc. Code of Business Conduct and Ethics (Amended and Restated Effective December 9, 2003) incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

21 Subsidiaries of Manpower Inc.

23.1 Consent of Deloitte & Touche LLP.

24 Powers of Attorney.

31.1 Certification of Jeffrey A. Joerres, Chairman and Chief Executive Officer, pursuant to Section 13a-14(a) of the Securities Exchange Act of 1934.

31.2	Certification of Michael J. Van Handel, Executive Vice President and Chief Financial Officer, pursuant to Section 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Statement of Jeffrey A. Joerres, Chairman and Chief Executive Officer, pursuant to 18 U.S.C. ss. 1350.
32.2	Statement of Michael J. Van Handel, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. ss. 1350.

** Management contract or compensatory arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MANPOWER INC.

By: /s/ Jeffrey A. Joerres
Jeffrey A. Joerres
Chairman, President and
Chief Executive Officer

Date: February 19, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Jeffrey A. Joerres Jeffrey A. Joerres	Chairman, President, Chief Executive Officer and a Director (Principal Executive Officer)	February 19, 2010
/s/ Michael J. Van Handel Michael J. Van Handel	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 19, 2010

Directors: J. Thomas Bouchard, Marc J. Bolland, Gina R. Boswell, Cari M. Dominguez, Jack M. Greenberg, Terry A. Hueneke, Roberto Mendoza, Ulice Payne, Jr., John R. Walter and Edward J. Zore

February 19, 2010

By: /s/ Kenneth C. Hunt
Kenneth Hunt
Attorney-In-Fact*

* Pursuant to authority granted by powers of attorney, copies of which are filed herewith.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Manpower Inc.:

We have audited the consolidated financial statements of Manpower Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009, and the Company's internal control over financial reporting as of December 31, 2009, and have issued our reports thereon dated February 19, 2010; such consolidated financial statements and reports are included in the 2009 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the consolidated financial statement schedule of the Company listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP

February 19, 2010
Milwaukee, Wisconsin

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the years ended December 31, 2009, 2008 and 2007, in millions:

Allowance for Doubtful Accounts:

	Balance at Beginning of Year	Provisions Charged to Earnings	Write- Offs	Translation Adjustments	Reclassifications and Other	Balance at End of Year
2009	$ 118.5	$ 27.8	$ (39.0)	$ 2.5	$ 8.5	$ 118.3
2008	123.1	23.4	(21.5)	(10.1)	3.6	118.5
2007	109.9	21.8	(20.8)	9.5	2.7	123.1

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1

2

64

Home equity lines of credit serviced by others
6

—

—

3

9

Automobile
15

1

1

1

18

Student
153

4

1

1

159

Credit cards
24

1

1

—

26

Other retail
11

1

—

—

12

Total

$684

$19

$17

$92

$812

91

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

	December 31, 2015				
(in millions)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Recorded Investment:					
Residential mortgages	$327	$25	$12	$77	$441
Home equity loans	170	13	6	35	224
Home equity lines of credit	163	7	4	20	194
Home equity loans serviced by others	67	2	1	4	74
Home equity lines of credit serviced by others	6	1	—	3	10
Automobile	13	1	—	—	14
Student	157	4	2	2	165
Credit cards	25	1	1	1	28
Other retail	14	1	—	—	15
Total	$942	$55	$26	$142	$1,165

The tables that follow present the accrual status of our retail TDRs:

	September 30, 2016		
(in millions)	Accruing	Nonaccruing	Total
Recorded Investment:			
Residential mortgages	$93	$82	$175
Home equity loans	107	45	152
Home equity lines of credit	127	70	197
Home equity loans serviced by others	46	18	64
Home equity lines of credit serviced by others	4	5	9
Automobile	9	9	18
Student	129	30	159
Credit cards	26	—	26
Other retail	11	1	12
Total	$552	$260	$812

	December 31, 2015		
(in millions)	Accruing	Nonaccruing	Total
Recorded Investment:			
Residential mortgages	$279	$162	$441
Home equity loans	158	66	224
Home equity lines of credit	107	87	194
Home equity loans serviced by others	52	22	74
Home equity lines of credit serviced by others	4	6	10
Automobile	6	8	14
Student	138	27	165
Credit cards	27	1	28
Other retail	15	—	15
Total	$786	$379	$1,165

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

Securities

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

(dollars in millions)	September 30, 2016 Amortized Cost	September 30, 2016 Fair Value	December 31, 2015 Amortized Cost	December 31, 2015 Fair Value	Change in Fair Value	
Securities Available for Sale:						
U.S. Treasury and other	$15	$15	$16	$16	($1)	(6%)
State and political subdivisions	8	8	9	9	(1)	(11)
Mortgage-backed securities:						
Federal agencies and U.S. government sponsored entities	18,606	18,956	17,234	17,320	1,636	9
Other/non-agency	456	429	555	522	(93)	(18)
Total mortgage-backed securities	19,062	19,385	17,789	17,842	1,543	9
Total debt securities	19,085	19,408	17,814	17,867	1,541	9
Marketable equity securities	5	5	5	5	—	—
Other equity securities	12	12	12	12	—	—
Total equity securities	17	17	17	17	—	—
Total securities available for sale	$19,102	$19,425	$17,831	$17,884	$1,541	9%
Securities Held to Maturity:						
Mortgage-backed securities:						
Federal agencies and U.S. government sponsored entities	$4,279	$4,380	$4,105	$4,121	$259	6%
Other/non-agency	1,010	1,051	1,153	1,176	(125)	(11)
Total securities held to maturity	$5,289	$5,431	$5,258	$5,297	$134	3
Total securities available for sale and held to maturity	$24,391	$24,856	$23,089	$23,181	$1,675	7%

As of September 30, 2016, the fair value of the AFS and HTM securities portfolio increased $1.7 billion to $24.9 billion, compared with $23.2 billion as of December 31, 2015, driven by an increase in market value due to a decline in interest rates and net purchases of $1.3 billion in securities that were bought for liquidity management purposes.

As of September 30, 2016, the portfolio's average effective duration was 2.7 years compared with 3.5 years as of December 31, 2015, largely reflecting the impact of an increase in prepayment speeds due to lower long term rates. The reduction in securities duration was most pronounced in the first quarter 2016 as interest rates declined significantly in this period. We proactively manage the combination of securities duration, swap positions, and borrowed funds. Refer to "—Market Risk — Non-Trading Risk" for more information.

The securities portfolio includes high-quality, highly-liquid investments reflecting our ongoing commitment to maintaining appropriate contingent liquidity levels and pledging capacity. U.S. government-guaranteed notes and government-sponsored entity-issued mortgage-backed securities represents the vast majority of the securities portfolio holdings. The portfolio composition is also dominated by holdings backed by mortgages to facilitate our ability to pledge them to the FHLBs. This has become increasingly important due to the enhanced liquidity requirements of the liquidity coverage ratio. For further discussion of the liquidity coverage ratios, see "Regulation and Supervision — Liquidity Standards" in Part I — Business, included in the Annual Report on Form 10-K for the year ended December 31, 2015.

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

Deposits

The table below presents the major components of our deposits:

(dollars in millions)	September 30, 2016	December 31, 2015	Change	Percent
Demand	$27,292	$27,649	($357)	(1%)
Checking with interest	20,573	17,921	2,652	15
Regular savings	8,797	8,218	579	7
Money market accounts	38,258	36,727	1,531	4
Term deposits	13,407	12,024	1,383	12
Total deposits	$108,327	$102,539	$5,788	6%

Total deposits as of September 30, 2016 increased $5.8 billion to $108.3 billion, compared to $102.5 billion, as growth in checking with interest, money market products, term deposits and savings was partially offset by a decrease in demand deposits.

Borrowed Funds

Short-term borrowed funds

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

(dollars in millions)	September 30, 2016	December 31, 2015	Change	Percent
Federal funds purchased	$95	$—	$95	100%
Securities sold under agreements to repurchase	805	802	3	—
Other short-term borrowed funds (primarily current portion of FHLB advances)	2,512	2,630	(118)	(4)
Total short-term borrowed funds	$3,412	$3,432	($20)	(1%)

Short-term borrowed funds of $3.4 billion as of September 30, 2016, decreased $20 million from December 31, 2015, reflecting an $118 million decline in other short-term borrowed funds (primarily short-term FHLB advances) partially offset by a $95 million increase in Fed funds purchased and a $3 million increase in customer repurchase agreements.

As of September 30, 2016, our total contingent liquidity was $24.2 billion, consisting of $1.9 billion in net cash at the FRB (which is defined as excess cash balances held at the FRBs), $19.2 billion in unencumbered high-quality and liquid securities, and $3.1 billion in unused FHLB borrowing capacity. Asset liquidity, a component of contingent liquidity, consisting of excess cash balances at the FRB and unencumbered high-quality and liquid securities, was $21.1 billion. Additionally, $11.9 billion in secured Discount Window capacity from the FRBs created total available liquidity of approximately $36.1 billion.

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

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

	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,		As of and for the Year Ended December 31,
(dollars in millions)	2016	2015	2016	2015	2015
Weighted-average interest rate at period-end:					
Federal funds purchased and securities sold under agreements to repurchase	0.03 %	0.25 %	0.03 %	0.25 %	0.15 %
Other short-term borrowed funds (primarily current portion of FHLB advances)	0.63	0.29	0.63	0.29	0.44
Maximum amount outstanding at month-end during the period:					
Federal funds purchased and securities sold under agreements to repurchase	$1,032	$3,356	$1,274	$5,375	$5,375
Other short-term borrowed funds (primarily current portion of FHLB advances)	2,515	5,861	4,764	7,004	7,004
Average amount outstanding during the period:					
Federal funds purchased and securities sold under agreements to repurchase	$910	$2,880	$922	$3,947	$3,364
Other short-term borrowed funds (primarily current portion of FHLB advances)	2,564	5,062	3,133	6,169	5,865
Weighted-average interest rate during the period:					
Federal funds purchased and securities sold under agreements to repurchase	0.10 %	0.32 %	0.09 %	0.22 %	0.22 %
Other short-term borrowed funds (primarily current portion of FHLB advances)	0.63	0.29	0.62	0.27	0.28

Note: Balances are net of certain short-term receivables associated with reverse repurchase agreements. Interest expense includes the full cost of the repurchase agreements, but excludes certain hedging costs and broker fees.

Long-term borrowed funds

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

(in millions)	September 30, 2016	December 31, 2015
Citizens Financial Group, Inc.:		
4.150% fixed rate subordinated debt, due 2022	$347	$350
5.158% fixed-to-floating rate subordinated debt, (LIBOR + 3.56%) callable, due 2023	333	333
3.750% fixed rate subordinated debt, due 2024	250	250
4.023% fixed rate subordinated debt, due 2024	42	331
4.082% fixed rate subordinated debt, due 2025	—	331
4.350% fixed rate subordinated debt, due 2025	249	250
4.300% fixed rate subordinated debt, due 2025	749	750
2.375% fixed rate senior unsecured debt, due 2021	348	—
Banking Subsidiaries:		
1.600% senior unsecured notes, due 2017	750	749
2.300% senior unsecured notes, due 2018	752	747

2.450% senior unsecured notes, due 2019	761	752
2.500% senior unsecured notes, due 2019	749	—
2.550% senior unsecured notes, due 2021	998	—
Federal Home Loan advances due through 2033	5,564	5,018
Other	10	25
Total long-term borrowed funds	$11,902	$9,886

Note: The September 30, 2016 balances above reflect the impact of unamortized deferred issuance costs and discounts. See Note 7 “Borrowed Funds” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

On July 28, 2016, we issued $350 million of 2.375% fixed-rate senior notes due 2021, and used the net proceeds and available cash to repurchase $500 million of our subordinated notes. Specifically, we retired $334 million of our 4.082% subordinated notes due 2025 and $166 million of our 4.023% subordinated notes due 2024.
On December 3, 2015, we repurchased $750 million of outstanding subordinated debt instruments. The $3 million difference between the repurchase price and the net carrying amount of the subordinated debt was recognized as a gain on

extinguishment of the debt. To fund the repurchase, we issued $750 million of new subordinated debt with a 4.300% fixed rate and a ten year maturity.

On July 31, 2015, we issued $250 million of subordinated debt with a 4.350% fixed rate and a ten year maturity. On August 3, 2015, we used the net proceeds of this issuance to repurchase 9,615,384 shares of our common stock.

Long-term borrowed funds of $11.9 billion as of September 30, 2016 increased $2.0 billion from December 31, 2015, primarily driven by a $2.1 billion increase in senior bank debt and an increase of $546 million in long-term FHLB borrowings, offset by a reduction of $620 million in subordinated debt. Access to additional funding through repurchase agreements, collateralized borrowed funds or asset sales continues to be available. Additionally, capacity remains to grow deposits or issue senior or subordinated notes.

Derivatives

We use pay-fixed swaps to hedge floating rate wholesale funding and to offset duration in fixed-rate assets. Notional balances on wholesale funding hedges totaled $4.5 billion as of September 30, 2016 and $5.0 billion as of December 31, 2015. Pay-fixed rates on the swaps ranged from 1.96% to 4.30% as of September 30, 2016 and December 31, 2015. As of September 30, 2016, we received the daily federal funds effective rate on a $500 million notional position, which matures in October 2016, while the remaining $4.0 billion are forward starting positions which begin accruing interest starting in January 2017 and later periods. At December 31, 2015 we also had a $500 million hedge of forecasted term debt issuance at a 1.82% pay fixed rate which was unwound in July 2016.

We use receive-fixed swaps to minimize the exposure to variability in the interest cash flows on our floating rate assets, and to hedge market risk on fixed rate capital markets debt issuances. At September 30, 2016 and December 31, 2015, the notional amount of receive-fixed swap hedges totaled $12.9 billion and $11.3 billion, respectively. The fixed-rate ranges were 0.88% to 2.04% and 0.77% to 2.05%, respectively. We paid one-month and three-month LIBOR on these swaps.

In third quarter 2016, we entered into $2.9 billion five-year receive-fixed interest rate swap designed to hedge the interest-rate exposure on floating rate commercial loans and modestly reduce longer-term net interest income sensitivity. We receive fixed at rates ranging from 0.88% to 1.07% on the agreements and pay one month LIBOR.

In July 2016, we unwound $1 billion in swaps related to a subordinated debt buy back, comprised of a $500 million fair value hedge of the notes bought back, and $500 million hedging the forecast senior debt issuance used to retire the debt.

In June 2016, we entered into a $500 million five-year receive-fixed interest rate swap designed to hedge the interest-rate exposure on floating rate commercial loans and modestly reduce longer-term net interest income sensitivity. We receive a fixed rate of 1.09% on the agreement and pay one month LIBOR.

In March and May 2016, we entered into receive-fixed interest-rate swaps totaling $750 million and $1.0 billion, respectively, to manage the interest rate exposure on a medium term debt issued in the same months. These agreements converted the fixed-rate debt coupon to three-month LIBOR based floating funding. We receive a fixed rate of 1.06% and 1.17%, respectively, on the swap agreements and pay three month LIBOR.

In February 2016, we terminated $3.0 billion of two-year original term receive-fixed interest rate swaps that hedged the interest rate exposure on floating rate commercial loans. The transaction resulted in a $13 million gain which will be amortized over the remaining life of the swap.

We also sell interest rate swaps and foreign exchange forwards to commercial customers. Interest rate and foreign exchange derivative contracts are transacted to effectively minimize our market risk associated with the customer derivative contracts. 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 11 "Derivatives" in our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

	September 30, 2016			December 31, 2015		
(dollars in millions)	Notional Amount (1)	Derivative Assets	Derivative Liabilities	Notional Amount (1)	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate contracts	$17,350	$347	$233	$16,750	$96	$50
Derivatives not designated as hedging instruments:						
Interest rate contracts	51,847	709	621	33,719	540	455
Foreign exchange contracts	8,296	118	113	8,366	163	156
Other contracts	1,845	18	9	981	8	5
Total derivatives not designated as hedging instruments		845	743		711	616
Gross derivative fair values		1,192	976		807	666
Less: Gross amounts offset in the Consolidated Balance Sheets (2)		(89)	(89)		(178)	(178)
Less: Cash collateral applied (2)		(1)	(47)		(4)	(3)
Total net derivative fair values presented in the Consolidated Balance Sheets (3)		$1,102	$840		$625	$485

(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 do not measure 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" in our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

At September 30, 2016, the overall derivative asset value increased $477 million and the liability balance increased by $355 million from December 31, 2015, primarily due to decreased fixed interest rates at September 30, 2016, compared to December 31, 2015.

Capital

As a bank holding company and a financial holding company, we are subject to regulation and supervision by the FRBG. 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-charted savings bank regulated by the Department of Banking of the Commonwealth of Pennsylvania and supervised by the FDIC as its primary federal regulator.

In July 2013, the FRB, OCC and FDIC issued the U.S. Basel III final rules. The rules implement the Basel Committee on Banking Supervision's Basel III capital framework and certain provisions of the Dodd-Frank Act, including the Collins Amendment. The U.S. Basel III final rules substantially revised the risk-based capital and leverage requirements applicable to bank holding companies and their insured depository institution subsidiaries, CBNA and CBPA. The U.S. Basel III final rules became effective for us and our depository institution subsidiaries, CBNA and CBPA, on January 1, 2015 (subject to a phase-in period for certain provisions).

The U.S. Basel III final rules, among other things, (i) introduced a new capital measure called CET1, (ii) specified that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements, (iii) defined CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expanded the scope of the deductions/adjustments to capital as compared to existing regulations.

The U.S. Basel III final rules also introduced a new capital conservation buffer ("CCB"), composed entirely of CET1, on top of three minimum risk-weighted asset ratios. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will increase by 0.625% on each subsequent January 1, until the buffer reaches its fully phased in level of 2.5% on January 1, 2019. Banking institutions with a ratio of CET1 to risk-weighted assets below the effective minimum (4.5% plus the applicable capital conservation buffer) will be subject to constraints on capital distributions, including dividends, repurchases and certain executive compensation based on the amount of the shortfall. Under the U.S. Basel III transitional rules, the effective minimum capital ratios as of January 1, 2016 were:

- 5.125% CET1 to risk-weighted assets (minimum of 4.5% plus 0.625% CCB);
- 6.625% Tier 1 capital (CET1 plus Additional Tier 1 capital) to risk-weighted assets (minimum of 6% plus 0.625% CCB);
- 8.625% Total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets (minimum of 8% plus 0.625% CCB); and

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- 4.000% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio"). The minimum leverage ratio of 4% is not impacted by the capital conservation buffer.

Under the U.S. Basel III fully phased-in rules, the effective minimum capital ratios as of January 1, 2019 will be:

- 7.0% CET1 to risk-weighted assets (minimum 4.5% plus 2.5% CCB);
- 8.5% Tier 1 capital (CET1 plus Additional Tier 1 capital) to risk-weighted assets (minimum 6% plus 2.5% CCB); and
- 10.5% Total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets (minimum 8% plus 2.5% CCB).

The U.S. Basel III final rules also provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that certain deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter).

The U.S. Basel III final rules prescribe a standardized approach for risk weightings that expanded the risk-weighting categories from the general risk-based capital rules to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

With respect to CBNA and CBPA, the U.S. Basel III final rules also revise the "prompt corrective action" regulations pursuant to Section 38 of the Federal Deposit Insurance Act.

The table below presents our actual regulatory capital ratios under Basel III Transitional rules as of September 30, 2016 and December 31, 2015. In addition, the table includes pro forma Basel III ratios as of September 30, 2016 and December 31, 2015, after full phase-in of all requirements to which we will be subject by January 1, 2019. Based on both current and fully phased-in Basel III requirements, all ratios remain well above current and future Basel III minima:

	Transitional Basel III				Pro Forma Basel III Assuming Full Phase-in		
(dollars in millions)	Actual Amount	Actual Ratio	Required Minimum	Well-Capitalized Minimum for Purposes of Prompt Corrective Action	Actual Ratio[1]	Required Minimum + Required Capital Conservation Buffer for Non-Leverage Ratios	FDIA Required Well-Capitalized Minimum for Purposes of Prompt Corrective Action
Basel III Transitional as of September 30, 2016							
Common equity tier 1 capital[2][6]	$13,763	11.3 %	5.1 %	6.5 %	11.3 %	7.0 %	6.5 %
Tier 1 capital[3][6]	14,010	11.5	6.6	8.0	11.5	8.5	8.0
Total capital[4][6]	17,290	14.2	8.6	10.0	14.2	10.5	10.0
Tier 1 leverage[5]	14,010	10.1	4.0	5.0	10.1	4.0	5.0
Risk-weighted assets	121,612						
Quarterly adjusted average assets	138,425						
Basel III Transitional as of December 31, 2015							
Common equity tier 1 capital[2]	$13,389	11.7 %	4.5 %	6.5 %	11.7 %	7.0 %	6.5 %
Tier 1 capital[3]	13,636	12.0	6.0	8.0	11.9	8.5	8.0
Total capital[4]	17,505	15.3	8.0	10.0	15.3	10.5	10.0
Tier 1 leverage[5]	13,636	10.5	4.0	5.0	10.5	4.0	5.0
Risk-weighted assets	114,084						

Quarterly adjusted average assets 130,455

(1) Fully phased-in regulatory capital ratios are Key Performance Metrics. For more information on the computation of these Key Performance Metrics, see "—Principal Components of Operations and Key Performance Metrics Used By Management - Key Performance Metrics and Non-GAAP Financial Measures."

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

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

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

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

(6) "Minimum Capital ratio" for 2016 includes capital conservation buffer of 0.625%.

Standardized Approach

The Basel III Standardized approach measures risk-weighted assets primarily for market risk and credit risk exposures. Exposures subject to market risk are measured on a basis generally consistent with how market risk risk-weighted assets were measured using the Basel 2.5 market risk rules. Refer to "—Market Risk — Market Risk Regulatory Capital," for further

information. We apply the Basel III standardized approach, as defined by the U.S. regulators, for determining the assignment of risk-weighted assets. Under the Standardized approach no distinction is made for variations in credit quality for corporate exposures. Additionally, the economic benefit of collateral is restricted to a limited list of eligible securities and cash. We estimate our common equity tier 1 capital ratio under the Basel III Standardized approach, on a fully phased-in basis, to be 11.3% at September 30, 2016. As of September 30, 2016, we estimated that our Basel III Standardized common equity tier 1 capital would be $13.8 billion and total risk-weighted assets would be $121.8 billion, on a fully-phased in basis. Our estimates under the Basel III Standardized approach may be refined over time because of further rulemaking or clarification by U.S. banking regulators or as our understanding and interpretation of the rules evolve. Actual results could differ from those estimates and assumptions.
A reconciliation of Basel III Standardized Transitional approach to Basel III Standardized estimates on a fully-phased in basis for common equity tier 1 capital, total capital and risk-weighted assets, see the following table.

(dollars in millions)	September 30, 2016	December 31, 2015
Common equity tier 1 capital	$13,763	$13,389
Impact of intangibles at 100%	—	(2)
Fully phased-in common equity tier 1 capital[1]	$13,763	$13,387
Total capital	$17,290	$17,505
Impact of intangibles at 100%	—	(2)
Fully phased in common total capital[1]	$17,290	$17,503
Risk-weighted assets	$121,612	$114,084
Impact of intangibles - 100% capital deduction	—	(2)
Impact of mortgage servicing assets at 250% risk weight	228	246
Fully phased-in risk-weighted assets[1]	$121,840	$114,328
Transitional common equity tier 1 ratio[2]	11.3 %	11.7 %
Fully phased-in common equity tier 1 ratio[1][2]	11.3	11.7
Transitional total capital ratio[3]	14.2	15.3
Fully phased-in total capital ratio[1][3]	14.2	15.3

[1] Fully phased-in regulatory capital ratios are Key Performance Metrics. For more information on the computation of these Key Performance Metrics, see "—Principal Components of Operations and Key Performance Metrics Used By Management - Key Performance Metrics and Non-GAAP Financial Measures."
[2] "Common equity tier 1 capital ratio" represents CET1 divided by total risk-weighted assets as defined under Basel III Standardized approach.
[3] "Total capital ratio" is total capital divided by total risk-weighted assets as defined under Basel III Standardized approach.

Regulatory Capital Ratios and Capital Composition

CET1 capital under Basel III Standardized Transitional rules was $13.8 billion at September 30, 2016, an increase of $374 million from $13.4 billion at December 31, 2015. The increase was primarily attributable to net income and amortization of deferred tax related to goodwill for the nine months ended September 30, 2016, net of the repurchase of 11.1 million shares of common stock and dividends paid to stockholders. At September 30, 2016, there was approximately $247 million of additional tier 1 capital, reflecting the capital value after issuance costs of the 5.500% Fixed-to-Floating Non-Cumulative Perpetual Preferred Stock, Series A, issued on April 6, 2015. Tier 1 capital at September 30, 2016 was $14.0 billion, an increase of $374 million from $13.6 billion at December 31, 2015. Total capital was $17.3 billion at September 30, 2016, a decrease of $215 million from December 31, 2015 driven primarily by the redemption of subordinated debt, repurchase of 11.1 million shares of common stock and dividends paid to stockholders offset by net income for the nine months ended September 30, 2016.

Risk-weighted assets based on Basel III Standardized Transitional rules at September 30, 2016 were $121.6 billion, an increase of $7.5 billion as compared to December 31, 2015. The primary drivers for this change were growth in commercial, commercial real estate and student loan exposures.

As of September 30, 2016, the tier 1 leverage ratio decreased approximately 33 basis points to 10.1% from 10.5% as of December 31, 2015. This decline reflected the net impact of an $8.0 billion increase in adjusted quarterly average total assets, which drove a 61 basis point decline in the ratio, and the previously noted increase in tier 1 capital, which added 28 basis points to the ratio.

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

The following table presents our capital composition under the Basel III capital framework in effect at September 30, 2016 and December 31, 2015:

(dollars in millions)	Transitional Basel III September 30, 2016	December 31, 2015
Total common stockholders' equity	$19,934	$19,399
Exclusions[1]:		
Net unrealized (gains) losses recorded in accumulated other comprehensive income, net of tax:		
Debt and marketable equity securities available for sale	(143)	28
Derivatives	(32)	(10)
Unamortized net periodic benefit costs	362	369
Deductions:		
Goodwill	(6,876)	(6,876)
Deferred tax liability associated with goodwill	519	480
Other intangible assets	(1)	(1)
Total Common Equity Tier 1	13,763	13,389
Qualifying preferred stock	247	247
Total Tier 1 Capital	14,010	13,636
Qualifying long-term debt securities as tier 2	1,970	2,595
Allowance for loan and lease losses	1,240	1,216
Allowance for credit losses for off-balance sheet exposure	70	58
Total capital	$17,290	$17,505

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

Capital Adequacy Process

Our assessment of capital adequacy begins with our risk appetite and risk management framework. This framework provides for the identification, measurement and management of material risks. Capital requirements are determined for actual and forecasted risk portfolios using applicable regulatory capital methodologies. The assessment also considers the possible impacts of approved and proposed 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 economic capital requirements. A robust governance framework supports our capital planning process. 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 FRBG and other bank regulators. We prepare these plans in full compliance with the FRBG's Capital Plan Rule and we participate annually in the FRBG's extensive CCAR review process. In addition to the stress test requirements under CCAR, we also participate in semiannual stress tests required by the Dodd-Frank Act.

In April 2016, we submitted our 2016 Capital Plan to the Federal Reserve under the annual CCAR process. On June 29, 2016, the FRBG indicated that it did not object to our 2016 Capital Plan or to our proposed capital actions in the period beginning July 1, 2016 and ending June 30, 2017. Our 2016 Capital Plan includes quarterly common dividends of $0.12 per share through the end of 2016, a potential 17% increase to quarterly common dividends to $0.14 per share in 2017, and a share repurchase plan of up to $690 million through the second quarter of 2017.

All distributions proposed under our 2016 Capital Plan are subject to consideration and approval by the CFG's Board of Directors prior to execution. The timing and exact amount of dividends and share repurchases will depend on various factors, including our capital position, financial performance and market conditions. For fourth quarter 2016, CFG's Board of Directors has approved a common dividend of $0.12 per share and the continuation of our share repurchase plan. All of these actions were included in our 2016 Capital Plan to which the Federal Reserve indicated no objection.

Capital Transactions

During the nine months ended September 30, 2016, we completed the following capital actions:

- Declared quarterly common stock dividends of $0.10 per share for the first quarter of 2016 and $0.12 per share for each of the second and third quarters of 2016, aggregating to dividend payments of approximately $179 million;
- Repurchased $125 million aggregate principal amount of our 4.023% subordinated notes due 2024 on March 7, 2016;
- Repurchased $334 million aggregate principal amount of our 4.082% subordinated notes due 2025 on July 28, 2016;
- Repurchased $166 million aggregate principal amount of our 4.023% subordinated notes due 2024 on July 28, 2016;
- Declared semi-annual dividends of $27.50 per share on the 5.500% fixed-to-floating rate non-cumulative perpetual Series A Preferred Stock, aggregating to payments of approximately $7 million on April 6, 2016 and October 6, 2016; and
- Repurchased 11.1 million shares of common stock reducing regulatory capital by $250 million.

At September 30, 2016, all regulatory ratios remained well above their respective fully phased-in Basel III minimum plus the capital conservation buffer for the risk-based ratios. Fully phased-in regulatory capital ratios are Key Performance Metrics. For more information on the computation of these Key Performance Metrics, see "—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures".

Banking Subsidiaries' Capital

The following table presents our banking subsidiaries' capital ratios under Basel III Standardized Transitional rules as of September 30, 2016 and December 31, 2015:

	Transitional Basel III					
	September 30, 2016			December 31, 2015		
(dollars in millions)	Amount	Ratio		Amount	Ratio	
Citizens Bank, N.A.						
Common equity Tier 1 capital[1]	$11,152	11.4	%	$10,754	11.7	%
Tier 1 risk-based capital [2]	11,152	11.4		10,754	11.7	
Total Risk-based Capital[3]	13,344	13.6		13,132	14.3	
Tier 1 Leverage[4]	11,152	10.5		10,754	10.7	
Risk-weighted assets	98,173			91,625		
Quarterly adjusted average assets	106,506			100,504		
Citizens Bank of Pennsylvania						
Common equity Tier 1 capital[1]	$3,083	12.9	%	$3,017	13.0	%
Tier 1 risk-based capital [2]	3,083	12.9		3,017	13.0	
Total Risk-based Capital[3]	3,326	13.9		3,559	15.4	
Tier 1 Leverage[4]	3,083	8.9		3,017	9.1	
Risk-weighted assets	23,983			23,179		
Quarterly adjusted average assets	34,812			33,045		

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

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

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

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

CBNA CET1 capital under Basel III Standardized Transitional rules was $11.2 billion at September 30, 2016, an increase of $398 million from $10.8 billion at December 31, 2015. The increase was primarily attributable to net income for the nine months ended September 30, 2016, net of common stock dividends. At September 30, 2016, CBNA held minimal additional tier 1 capital. Total capital was $13.3 billion at September 30, 2016, an increase of $212 million driven primarily by the increase in CET1 capital net of the redemption of subordinated debt.

CBNA risk-weighted assets based on Basel III Standardized Transitional rules at September 30, 2016 were $98.2 billion, an increase of $6.5 billion compared to December 31, 2015. The primary drivers for this change were the growth in commercial, student, auto and personal loans.

As of September 30, 2016, the CBNA tier 1 leverage ratio decreased approximately 23 basis points to 10.5% from 10.7% as of December 31, 2015, driven by an increase in adjusted quarterly average total assets of $6.0 billion resulting in a 62 basis point decline in the ratio, partially offset by a 39 basis point increase for higher CET1 capital described above.

CBPA CET1 capital under Basel III Standardized Transitional rules was $3.1 billion at September 30, 2016, an increase of $66 million from $3.0 billion at December 31, 2015. The increase was primarily attributable to net income for the nine months ended September 30, 2016 and amortization of deferred tax assets related to goodwill, net of common stock dividends.

At September 30, 2016, there was no additional tier 1 capital. Total capital was $3.3 billion at September 30, 2016, a decrease of $233 million driven primarily by the redemption of subordinated debt offset by an increase in CET1 capital.

CBPA risk-weighted assets based on Basel III Standardized Transitional rules at September 30, 2016 were $24.0 billion, an increase of $804 million as compared to December 31, 2015. The primary drivers for this change were growth in commercial, commercial real estate and student loan exposures. These increases were partially offset by decreases in both the residential mortgage and home equity loans.

As of September 30, 2016, the CBPA tier 1 leverage ratio decreased approximately 27 basis points to 8.9% from 9.1% as of December 31, 2015, driven by an increase in adjusted quarterly average total assets of $1.8 billion resulting in a 47 basis point decline in the ratio, partially offset by a 20 basis point increase resulting from higher CET1 capital described above.

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 meet its expected daily and forecasted cash-flow requirements, as well as contingent liquidity to meet unexpected (stress scenario) funding requirements. As noted earlier, reflecting the importance of meeting all unexpected and stress-scenario funding requirements, we separately identify and manage contingent liquidity (consisting of excess cash balances at the FRB, unencumbered high-quality and liquid securities, and unused FHLB borrowing capacity) and asset liquidity (a component of contingent liquidity, consisting of excess cash balances at the FRB and unencumbered high-quality securities). We consider the effective and prudent management of liquidity to be fundamental to our health and strength.

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

CFG Liquidity

Our primary sources of cash are (i) dividends and interest received from our banking subsidiaries as a result of investing in bank equity and subordinated debt and (ii) externally issued senior and subordinated debt. 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.

During the nine month period ending September 30, 2016, we utilized $350 million in proceeds from the sale of senior notes and $275 million in excess cash to repurchase the entire $334 million of our 4.082% Subordinated Notes and $291 million of our 4.023% Subordinated Notes.

Our cash and cash equivalents represent a source of liquidity that can be used to meet various needs. As of September 30, 2016, we held cash and cash equivalents of approximately $591 million, which should be viewed as a liquidity reserve.

Our liquidity risk is low for the following reasons: (i) we have no material non-banking subsidiaries, and our banking subsidiaries are self-funding; (ii) the capital structures of our banking subsidiaries are similar to our capital structure. As of September 30, 2016, our double leverage ratio (the combined equity of our subsidiaries divided by our equity) was 101.8%; and, (iii) 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) wholesale borrowings, as needed, and as described under "—Liquidity Risk Management and Governance." The primary uses of bank liquidity include (i) withdrawals and maturities of deposits; (ii) payment of interest on deposits; (iii) funding of 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.

From an external issuance perspective, during 2014, we created a $3.0 billion Global Note Program for CBNA. This debt represents a key source of unsecured, term, and stable funding, further diversifies the funding sources of CBNA, and creates a more peer-like funding structure for the consolidated enterprise. On March 14, 2016, we increased the size of this program from $3.0 billion to $5.0 billion. Also, on March 14, 2016, CBNA issued $750 million in three-year fixed-rate senior notes, and on May 13, 2016, CBNA issued $1.0 billion in five-year fixed-rate senior notes. On December 3, 2015, CBNA issued $750 million in three-year fixed-rate senior notes, and on December 4, 2014, CBNA issued $1.5 billion in fixed-rate senior notes, consisting of $750 million of three-year notes and $750 million in five-year notes.

Liquidity Risk

We define liquidity risk as the risk that an entity will be unable to meet its payment obligations in a timely manner. 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 contingent liquidity risk and/or funding liquidity risk.

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

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

Factors Affecting Liquidity

Given the composition of their assets and borrowing sources, contingent liquidity risk 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 GNMA, FNMA and the FHLMC), by any inability of the FHLBs to provide collateralized advances, and/or by a refusal of the FRB to act as lender of last resort in systemic stress. Similarly, given the structure of their balance sheets, the funding liquidity risk 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 2008-2010). 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 contingent liquidity risk and 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:

	September 30, 2016		
	Moody's	Standard and Poor's	Fitch
Citizens Financial Group, Inc.:			
Long-term issuer	NR	BBB+	BBB+
Short-term issuer	NR	A-2	F2
Subordinated debt	NR	BBB	BBB
Preferred Stock	NR	BB+	BB-
Citizens Bank, N.A.:			
Long-term issuer	Baa1	A-	BBB+
Short-term issuer	P-2	A-2	F2
Long-term deposits	A1	NR	A-
Short-term deposits	P-1	NR	F2
Citizens Bank of Pennsylvania:			
Long-term issuer	Baa1	A-	BBB+
Short-term issuer	P-2	A-2	F2
Long-term deposits	A1	NR	A-
Short-term deposits	P-1	NR	F2

NR = Not rated

Changes in our public credit ratings could affect both the cost and availability of our wholesale funding. As a result and in order to maintain a conservative funding profile, our banking subsidiaries continue to minimize reliance on unsecured wholesale funding. At September 30, 2016, the majority of wholesale funding consisted of secured borrowings from the FHLBs collateralized by high-quality residential mortgages.

Existing and evolving regulatory liquidity requirements represent another key driver of systemic liquidity conditions and liquidity management practices. The FRBG, the OCC, and the FDIC regularly evaluate our liquidity as part of the overall supervisory process, and the U.S. version of the LCR was effective for us beginning January 2016.

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 September 2014, the U.S. federal banking regulators published the final rule to implement the LCR. This rule also introduced a modified version of the LCR in the United States, which generally applies to BHCs not active internationally (institutions with less than $10 billion of on-balance sheet foreign exposure), with total assets of greater than $50 billion but less than $250 billion. Under this definition, we are designated as a modified LCR company. As compared to the Basel Committee's version of the LCR, the version of the LCR issued by the U.S. federal banking regulators includes a narrower definition of high-quality liquid assets, different prescribed cash inflow and outflow assumptions for certain types of instruments and transactions and a shorter phase-in schedule that began on January 1, 2015 and ends on January 1, 2017. Notably, as a modified LCR company, we were required to be 90% compliant beginning in January 2016, and 100% compliant beginning in January 2017. Achieving sustainable 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. We have been fully compliant with the LCR since its January 2016 effective date, up through and including September 30, 2016.

The U.S. federal bank regulatory agencies have issued a notice of proposed rulemaking to implement a modified NSFR for certain bank holding companies with more than $50 billion but less than $250 billion in assets and with less than $10 billion in on-balance sheet foreign exposures. Under this definition, we would be designated as a modified

NSFR company. The NSFR is one of the two Basel III-based liquidity measures, along with the LCR, and is designed to promote medium- and long-term stable funding of the assets and off-balance sheet activities of banks and bank holding companies over a one-year time horizon. Generally consistent with the Basel Committee's framework, under the proposed rule banking organizations would be required to hold an amount of available stable funding ("ASF") over a one-year time horizon that equals or exceeds the institution's amount of required stable funding ("RSF"), with the ASF representing the numerator and the RSF representing the denominator of the NSFR. Banking organizations subject to the modified NSFR would multiply the RSF amount by 70%, such that the RSF amount required for these companies would be equivalent to 70% of the RSF amount that would be required pursuant to the full NSFR generally applicable to institutions with more than $250 billion in total assets or $10 billion or more in on-balance sheet foreign exposures under the proposed rule. The proposed rule includes detailed descriptions of the items that would comprise ASF and

RSF and standardized factors that would apply to ASF and RSF items, and would require any institution whose applicable modified NSFR falls under 100% to notify the appropriate federal regulator and develop a remediation plan.

We are currently evaluating the impact of the U.S. federal bank regulatory agencies' NSFR framework. If ultimately adopted as currently proposed, the implementation of the NSFR could impact our liquidity and funding requirements and practices in the future.

We continue to review and monitor these liquidity requirements to develop appropriate 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 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 Funding and Liquidity Unit delivers regular and comprehensive reporting, including current levels versus threshold limits for a broad set of liquidity metrics and early warning indicators, explanatory commentary relating to emerging risk trends and, as appropriate, recommended remedial strategies.

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

We seek to accomplish this mission by funding loans with stable deposits; by prudently controlling dependence on wholesale funding, particularly short-term unsecured funding; and by maintaining ample available liquidity, including a sufficient liquidity buffer of unencumbered high-quality loans and securities. As of September 30, 2016:

- Core deposits, including loans and deposits held for sale, continued to be our primary source of funding and our consolidated period end loan-to-deposit ratio was 97.8%;
- Our net overnight position (which is defined as cash balance held at the Federal Reserve Banks less any overnight borrowings) totaled $1.9 billion;
- Contingent liquidity was $24.2 billion, consisting of our net overnight position (defined above) of $1.9 billion, unencumbered high-quality and liquid securities of $19.2 billion, and unused FHLB capacity of $3.1 billion. Asset liquidity (a component of contingent liquidity) was $21.1 billion consisting of our net overnight position of $1.9 billion and unencumbered high-quality and liquid securities of $19.2 billion; and
- Available discount window capacity, defined as available total borrowing capacity from the FRB based on identified collateral, is secured by non-mortgage commercial and consumer loans and totaled $11.9 billion. Use of this borrowing capacity would likely be considered only during exigent circumstances.

The Funding and Liquidity Unit monitors a variety of liquidity and funding early warning indicators and metrics, including specific risk thresholds and limits. The early warning indicators include both the internal and external environment, providing both an inside-out and an outside-in risk perspective. The metrics are broadly classified as follows:

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

Further, certain of these metrics are monitored for each of us, our banking subsidiaries, and for our consolidated enterprise on a daily basis, including net overnight position, unencumbered securities, internal liquidity, and available

FHLB borrowing capacity. In order to identify emerging trends and risks and inform funding decisions, specific metrics are also forecasted over a one-year horizon.

Money-fund reform and other factors have incrementally increased borrowing rates for short-term and unsecured bank liabilities. However, our utilization of unsecured and short-term wholesale funding continues to be de minimis, given our significant portfolio of high quality liquid assets, our access to alternative funding sources including the FHLBs and the long-term capital markets, and our strong franchise deposit base.

Cash flows from operating activities contributed $1.2 billion in the first nine months of 2016. Net cash used by investing activities was $8.7 billion, primarily reflecting a net increase in loans and leases of $6.7 billion and securities available for sale portfolio purchases of $4.8 billion, partially offset by proceeds from maturities, paydowns and sales of securities available for sale of $3.4 billion. Cash provided by financing activities was $7.3 billion, driven by net increase in deposits of $5.8 billion, and proceeds from issuance of long-term borrowed funds of $9.6 billion, partially offset by a net decrease in other short-term borrowed funds of $1.6 billion, and repayments of long-term borrowed funds of $6.1 billion. The $9.6 billion proceeds included $2.1 billion from issuances of medium term debt and $7.5 billion in FHLB advances. The $6.1 billion of repayments includes $5.5 billion in repayments of FHLB advances and $625 million paid to repurchase subordinated debt. These activities represented a cumulative decrease in cash and cash equivalents of $170 million, which, when added to the cash and cash equivalents balance of $3.1 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of $2.9 billion as of September 30, 2016.

In the first nine months of 2015, our operating activities contributed $831 million in net cash. Net cash used by investing activities was $4.2 billion, primarily reflecting net securities available for sale portfolio purchases of $5.4 billion and a net increase in loans and leases of $4.3 billion, partially offset by proceeds from maturities, paydowns and sales of securities available for sale of $5.8 billion. Cash provided by financing activities was $1.8 billion, driven by a net increase in deposits of $6.2 billion. These activities represented a cumulative decrease in cash and cash equivalents of $1.5 billion, which, when added to the cash and cash equivalents balance of $3.3 billion at the beginning of 2015, resulted in an ending balance of cash and cash equivalents of $1.8 billion as of September 30, 2015.

Off-Balance Sheet Commitments

The following table presents our outstanding off-balance sheet commitments. See Note 12 "Commitments and Contingencies" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

(dollars in millions)	September 30, 2016	December 31, 2015	Change	Percent
Commitment amount:				
Undrawn commitments to extend credit	$60,125	$56,524	$3,601	6 %
Financial standby letters of credit	1,980	2,010	(30)	(1)
Performance letters of credit	40	42	(2)	(5)
Commercial letters of credit	55	87	(32)	(37)
Marketing rights	44	47	(3)	(6)
Risk participation agreements	51	26	25	96
Residential mortgage loans sold with recourse	9	10	(1)	(10)
Total	$62,304	$58,746	$3,558	6 %

On January 7, 2016, we entered into an agreement to purchase student loans on a quarterly basis beginning with the first calendar quarter in 2016 and ending with the fourth calendar quarter in 2016. Under the terms of the agreement, we committed to purchase a minimum of $125 million of loans per quarter. The minimum and maximum amount of the aggregate purchase principal balance of loans under the terms of the agreement are $500 million and $1.0 billion, respectively. The agreement will terminate immediately if at any time during its term the aggregate purchase principal balance of loans equals the maximum amount. The agreement may be extended by written agreement of the parties for an additional four quarters. We may terminate the agreement at will with payment of a termination fee equal to the product of $1 million times the number of calendar quarters remaining in the term.

Our agreement to purchase automobile loans, originally entered into in May 2014, was most recently amended on February 18, 2016. For quarterly periods on or after August 1, 2015, the minimum and maximum purchases are $50 million and $200 million, respectively. The agreement automatically renews until terminated by either party. We may cancel the agreement at will with payment of a variable termination fee. There is no termination fee after May 2017.

Critical Accounting Estimates

Our unaudited interim Consolidated Financial Statements, which are included in this report, are prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to establish accounting policies and make estimates that affect amounts reported in our audited Consolidated Financial Statements. An accounting estimate requires assumptions and judgments about uncertain matters that could have a material effect on our unaudited interim 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" to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2015, for further discussion of our significant accounting policies.

Allowance for Credit Losses

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

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

The evaluation of the adequacy of the commercial, commercial real estate, and lease ALLL and reserve for unfunded lending commitments is primarily based on risk rating models that assess probability of default, loss given default and exposure at default on an individual loan basis. The models are primarily driven by individual customer financial characteristics and are validated against historical experience. Additionally, qualitative factors 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 ALLL is established for the loan through a charge to the provision for credit losses. For all classes of impaired loans, individual loan measures of impairment may result in a charge-off to the ALLL, if deemed appropriate. In such cases, the provision for credit losses is not affected when a specific reserve for at least that amount already exists. Techniques utilized include comparing the loan's carrying amount to the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan's observable market price. The technique applied to each impaired loan is based on the workout officer's opinion of the most probable workout scenario. Historically, this has generally led to the use of the estimated present value of future cash flows approach. The fair value of underlying collateral will be used if the loan is deemed collateral dependent. For loans that use the fair value of underlying collateral approach, a charge-off assessment is performed quarterly to write the loans down to fair value.

For most non-impaired retail loan portfolio types, the ALLL is based upon the incurred loss model utilizing the PD, LGD and exposure at default on an individual loan basis. When developing these factors, we may consider the loan product and collateral type, 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. Certain retail portfolios, including SBO home equity loans, student loans, and credit card receivables utilize roll rate models to estimate the ALLL. For the portfolios measured using the incurred loss model, roll rate models are also used to support management overlays if deemed necessary.

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

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status is present, the junior lien will be placed on nonaccrual status regardless of its delinquency status on our books. This subsequent change to nonaccrual status will alter the treatment in the PD model, thus affecting the reserve calculation.

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

The above measures are all used to assess the PD and LGD for HELOC borrowers for whom we originated the loans. There is also a portfolio of home equity products that were originated and serviced by others; 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 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 ALLL. 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, 2015 would have increased the ALLL by $5 million and $26 million, respectively. The ALLL for our Commercial Banking segment is sensitive to assigned credit risk ratings and inherent loss rates. If 10% and 20% of the December 31, 2015 year end loan balances (including unfunded commitments) within each risk rating category of our Commercial Banking segment had experienced downgrades of two risk categories, the ALLL would have increased by $36 million and $72 million, respectively.

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

For additional information regarding the ALLL and reserve for unfunded lending commitments, see Note 1 "Significant Accounting Policies," to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2015 and Note 4 "Allowance for Credit Losses, Nonperforming Assets and Concentrations of Credit Risk," to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

Fair Value

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

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

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

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

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

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

Significant assets measured at fair value on a recurring basis include our mortgage-backed securities available for sale. These instruments are priced using an external pricing service and are classified as Level 2 within the fair value hierarchy. The

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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 year-end balances. We also verify the accuracy of the pricing provided by our primary external pricing service on a quarterly basis. This process involves using a secondary external vendor to provide valuations for our securities portfolio for comparison purposes. Any securities with discrepancies beyond a certain threshold are researched and, if necessary, valued by an independent outside broker.

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

For additional information regarding our fair value measurements, see Note 1 "Significant Accounting Policies," to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2015 and Note 2 "Securities," Note 6 "Mortgage Banking," Note 11 "Derivatives," and Note 14 "Fair Value Measurements" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

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. Citizens has two reporting units with assigned goodwill; the Consumer segment and the Commercial 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 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 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, loan loss provision rates, tax rates, earnings and balance sheet growth rates, terminal value growth rate, capital levels, and a terminal value multiple. Discount rates are estimated based on the Capital Asset Pricing Model, which considers the risk-free interest rate, market risk premium, and beta for the reporting units. 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 the 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 that have comparable factors to the reporting units. Adjustments for differences in factors described earlier (i.e., size, growth, profitability, risk and return on investment) are also considered.

We also corroborate the fair value of our reporting units determined by the discounted cash flow method by adding the aggregated sum of these fair value measurements to the fair value of our other segment operations and comparing this total to our observed market capitalization. As part of this process, we analyze the implied control premium to evaluate its reasonableness. Both positive and negative facts and circumstances are considered when completing this analysis, including company and market-specific factors, observed transaction data and any additional external evidence supporting the implied control premium. Since none of our reporting units are publicly traded, individual reporting unit fair value determinations cannot be directly correlated to our common stock price. The sum of the fair values of the reporting units at October 31, 2015 exceeded the overall market capitalization of CFG as of October 31, 2015.

During the first nine months of 2016, we observed significant volatility in the overall market capitalization of CFG. Given this market volatility, we reviewed our market capitalization implied control premium based on end of period, average, median, and high and low stock prices during the second quarter. We also considered the various systematic and cyclical factors affecting bank stocks, as well as idiosyncratic factors such as our above-average capital position and attractive franchise value given our size, footprint, and customer base to evaluate the implied control premium. We will continue to monitor the volatility of our market capitalization. Although we believe it is reasonable to conclude that market capitalization could be an indicator of fair value over time, we do not believe that our current market capitalization reflects the aggregate fair value of our individual reporting units.

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 had 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, lagged previous expectations. The impact of the slow recovery was 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. 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 pre-tax $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 risk-based and total risk-based 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, 2015. As of this testing date, the percentage by which the fair value of our Consumer Banking reporting unit exceeded its carrying value was 6%, and the percentage by which the fair value of our Commercial Banking reporting unit exceeded its carrying value was 8%.

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, market conditions or anticipated growth rates are not achieved, or a market participant view of our total fair value declines, 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 9 "Goodwill," to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2015.

Income Taxes

Accrued income taxes are reported as a component of either other assets or other liabilities, as appropriate, in the 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 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 pre-tax 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 application of these tax laws and regulations. We 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 consolidated financial position, results of operations or cash flows.

For additional information regarding income taxes, see Note 1 "Significant Accounting Policies," to our audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2015 and Note 10 "Income Taxes," to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

Risk Governance

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

To enable 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.

Chief Risk Officer

The CRO directs our overall risk management function overseeing the credit, interest rate, market, liquidity, operational, compliance, strategic and reputational risk management. The CRO reports to our CEO and to the 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 and related policies. This centralized risk function is appropriately independent from the business and is accountable for overseeing and challenging our business lines on the effective management of their risks. 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 providing independent assurance with a view of the effectiveness of Citizens' internal controls, governance practices, and culture so that risk is managed appropriately for the size, complexity, and risk profile of the organization. Internal Audit has complete and unrestricted access to any and all Bank records, physical properties, and personnel. Internal Audit issues a report following each internal review and provides an audit opinion to Citizens' Audit Committees on a quarterly basis.

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

Risk Appetite

Risk appetite is a strategic business and risk management tool. We define our risk appetite as the maximum limit of acceptable risk beyond which we 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 strategies, including determination of risk appetite and tolerance.

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. 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 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.

Credit Risk

Overview

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

Objective

The 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 both the line of business and the second line of defense. The second line of defense, the independent Credit Risk Function, is led by the Chief Credit Officer who oversees all of our credit risk. The CCO reports to the Chief Risk Officer. The CCO, acting in a manner consistent with Board policies, has responsibility for, among other things, the governance process around policies, procedures, risk acceptance criteria, credit risk appetite, limits, and authority delegation. The CCO and his team also have responsibility for credit approvals for larger and higher risk transactions and oversight of line of business credit risk activities. Reporting to the CCO are the heads of the second line of defense credit functions specializing in: Consumer

Banking; Commercial Banking; Citizens Restructuring Management; Portfolio and Corporate Reporting; ALLL Analytics; and Credit Policy and Administration. Each team under these leaders is composed of highly experienced credit professionals.

The credit risk teams operate independently from the business lines to ensure decisions are not influenced by unbalanced objectives.

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 Credit Policy Committee, Executive Risk Committee and the Board Risk Committee for approval as appropriate.

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 credit lifecycle (origination, account management/portfolio management, and loss mitigation and recovery).

Consumer

On the consumer banking side of credit risk, our teams use models to evaluate consumer loans across the lifecycle of the loan. Starting at origination, credit scoring models are used to forecast the probability of default of an applicant. 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 the second line of defense credit risk function to each underwriter. The amount of delegated authority depends on the experience of the individual. We periodically evaluate the performance of each underwriter and annually reauthorize their delegated authority. Only senior members of the second line of defense credit risk team are authorized to approve significant exceptions to credit policies. It is not uncommon to make exceptions to established policies when compensating factors are present. There are exception limits which, when reached, trigger a comprehensive analysis.

Once an account is established, credit scores and collateral values are refreshed at regular intervals to allow for proactive identification of increasing or decreasing levels of credit risk. 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.

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 discussion prior to approval and implementation. This process ensures decisions are made based on risk-based analytics with full adherence to regulatory requirements.

Commercial

On the commercial banking side of credit risk, the structure is broken into C&I loans and leases and 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.

Commercial transactions are subject to individual analysis and approval at origination and, with few exceptions, are subject to a formal annual review requirement. The underwriting process includes the establishment and approval of Credit Grades that confirm the Probability of Default ("PD") and Loss Given Default ("LGD"). Approval then requires both a business line approver and an independent Credit Approver with the requisite level of delegated authority. The approval level of a particular credit facility is determined by the size of the credit relationship as well as the PD. The checks and balances in the credit process and the independence of the credit approver function are designed to appropriately assess and sanction the level of credit risk being accepted, facilitate the early recognition of credit problems when they occur, and to provide for effective problem asset management

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and resolution. All authority to grant credit is delegated through the independent Credit Risk function and is closely monitored and regularly updated.

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

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

Apart from Industrials and CRE (which together make up 30% of the commercial outstandings as of September 30, 2016), there are no material sector concentrations. As of September 30, 2016, our CRE outstandings amounted to 10% of total loans and leases. 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.

Our credit grading system considers many components that directly correlate to loan quality and likelihood of repayment. Our assessment of a borrower's credit strength is reflected in our risk ratings for such loans, which are also an integral component of our ALLL methodology. When deterioration in credit strength is noted, a loan becomes subject to Watch Review. The Watch Review process involves senior representatives from the business line portfolio management team, the independent Credit Risk team, and our Citizens Restructuring Management group. As appropriate and consistent with regulatory definitions, the credit may be subject to classification as either Criticized or Classified, which would also trigger a credit rating downgrade. As such, the loan and relationship would be subject to more frequent review.

Substantially all loans categorized as Classified are managed by Citizens Restructuring Management, 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, determining the appropriateness of specific reserves relating to the loan, accrual status of the loan, and the ultimate collectability of loans in their 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. 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 composed entirely of interest rate risk, as we have no direct currency or commodity risk and de minimis equity 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 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. For the past seven years with the Federal Funds rate near zero, this risk has been asymmetrical with significantly more upside benefit than potential exposure. Exposure to declining rates has lessened modestly in the second quarter given decreased market expectations for additional Federal Open Market Committee ("FOMC") actions. 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 ("ALCO") and at Board meetings.

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

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

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

The table below reports net interest income exposures against a variety of interest rate scenarios. 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 interest income simulation analyses do not include possible future actions that management might undertake to mitigate this risk. The current limit is a decrease in net interest income 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 presents our positioning in various parallel yield curve shifts:

	Estimated % Change in Net Interest Income over 12 Months	
Basis points	September 30, 2016	December 31, 2015
Instantaneous Change in Interest Rates		
+200	11.6 %	10.6 %
+100	5.8	5.8
-100	(5.2)	(5.8)
-200	(5.1)	(6.4)
Gradual Change in Interest Rates		
+200	5.8	6.1
+100	2.9	3.2
-100	(3.9)	(3.1)
-200	(4.8)	(4.6)

We use a valuation measure of exposure to structural interest rate risk, Economic Value of Equity ("EVE"), as a supplement to net interest income simulations. EVE complements net interest income simulation analysis as it estimates risk exposure over a long-term horizon. EVE measures the extent to which the economic value of assets, liabilities and off-balance sheet instruments may change in response to fluctuation in interest rates. This analysis is highly dependent upon assumptions applied to assets and liabilities with non-contractual maturities. The change in value is expressed as a percentage of regulatory capital. The current risk limit is set at a decrease of 20% of regulatory capital given an instantaneous +/- 200 basis point change in interest rates. We are operating within that limit as of September 30, 2016.

Asset sensitivity was 5.8% at September 30, 2016, down modestly from 6.1% at December 31, 2015. The asset sensitive risk position was actively managed by adjusting securities investments, interest rate swaps and funding mix. The risk position was managed down to the lower end of the range in the third quarter, given the outlook for a muted pace of FOMC tightenings and a lower market consensus of the neutral level of rates.

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 September 30, 2016 and December 31, 2015, our mortgage servicing rights had a carrying value of $152 million and $164 million, respectively, and were carried at the lower of cost or fair value. As of September 30, 2016, and December 31, 2015, the fair value of the mortgage servicing rights was $163 million and $178 million, respectively. Given low interest rates over recent years, there is a valuation allowance of $15 million and $9 million on the asset as of September 30, 2016 and December 31, 2015, respectively. Depending on the interest rate environment, hedges may be used to stabilize the market value of the mortgage servicing right asset.

Trading Risk

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

Client facilitation activities consist primarily of interest rate derivatives and foreign exchange contracts where we enter into offsetting trades with a separate counterparty or exchange to manage our market risk exposure. In addition to the aforementioned activities, we operate a secondary loan trading desk with the objective to meet secondary

liquidity needs of our issuing clients' transactions and investor clients. We do not engage in any trading activities with the intent to benefit from short term price differences.
We record interest rate derivatives and foreign exchange contracts as derivative assets and liabilities on our Consolidated Balance Sheets. Trading assets and liabilities are carried at fair value with income earned related to these activities included in net interest income. Changes in fair value of trading assets and liabilities are reflected in other income, a component of noninterest income on the unaudited interim Consolidated Statements of Operations.
Market Risk Governance
The market risk limit setting process is established in line with the formal enterprise risk appetite process and policy. This appetite reflects the strategic and enterprise level articulation of opportunities for creating franchise value set to the boundaries

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of how much market risk to take. Dealing authorities represent the key control tool in the management of market risk that allows the cascading of the risk appetite throughout the enterprise. A dealing authority sets the operational scope and tolerances within which a business is permitted to operate and this is reviewed at least annually. Dealing authorities are structured to accommodate the client facing trades and hedges needed to manage the risk profile. Primary responsibility for keeping within established tolerances resides with the business. Key risk indicators, including VaR, open foreign currency positions, and single name risk, are monitored on a daily basis and reported against tolerances consistent with our risk appetite and business strategy to relevant business line management and risk counterparts.

Market Risk Measurement

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

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

Value-at-Risk Overview

The market risk measurement model is based on historical simulation. The VaR measure estimates the extent of any fair value losses on trading positions that may occur due to broad market movements (General VaR) such as changes in the level of interest rates, foreign exchange rates, equity prices and commodity prices. It is calculated on the basis that current positions remain broadly unaltered over the course of a given holding period. It is assumed that markets are sufficiently liquid to allow the business to close its positions, if required, within this holding period. VaR's benefit is that it captures the historic correlations of a portfolio. Based on the composition of our "covered positions," we also use a standardized add-on approach for the loan trading desk's Specific Risk capital which estimates the extent of any losses that may occur from factors other than broad market movements. In addition, for our secondary traded loans we calculate the VaR on the general interest rate risk embedded within the loans using a standalone model that replicates the general VaR methodology (the related capital is reflected on the "de minimis" line in the following section). The General VaR approach is expressed in terms of a confidence level over the past 500 trading days. The internal VaR measure (used as the basis of the main VaR trading limits) is a 99% confidence level with a one day holding period, meaning that a loss greater than the VaR is expected to occur, on average, on only one day in 100 trading days (i.e., 1% of the time). Theoretically, there should be a loss event greater than VaR two to three times per year. The regulatory measure of VaR is done at a 99% confidence level with a 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 ended September 30, 2016 and 2015, including high, low, average and period end Value-at-Risk for interest rate and foreign exchange rate risks, as well as total VaR.

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, and associated hedges needed to maintain a low risk profile qualify as "covered positions." The internal, management 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 and non-modeled measures for regulatory capital calculations:

(in millions)	For the Quarter Ended September 30, 2016				For the Quarter Ended September 30, 2015			
Market Risk Category	Period End	Average	High	Low	Period End	Average	High	Low
Interest Rate	$—	$—	$—	$—	$—	$—	$—	$—
Foreign Exchange Currency Rate	—	—	2	—	—	—	—	—
Diversification Benefit	—	—	NM(1)	NM(1)	—	—	NM(1)	NM(1)
General VaR	—	—	2	—	—	—	—	—
Specific Risk VaR	—	—	—	—	—	—	—	—
Total VaR	$—	$—	$—	$—	$—	$—	$1	$—
Stressed General VaR	$2	$2	$5	$1	$2	$2	$4	$2
Stressed Specific Risk VaR	—	—	—	—	—	—	—	—
Total Stressed VaR	$2	$2	$5	$1	$2	$2	$4	$2
Market Risk Regulatory Capital	$7				$8			
Specific Risk Not Modeled Add-on	7				5			
de Minimis Exposure Add-on	17				9			
Total Market Risk Regulatory Capital	$31				$22			
Market Risk-Weighted Assets	$385				$272			

(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.

Stressed VaR

SVaR is an extension of VaR, but uses a longer historical look back horizon that is fixed from January 3, 2005. This is done not only to identify headline risks from more volatile periods, but also to provide a counter balance to VaR which may be low during periods of low volatility. The holding period for profit and loss determination is ten days. SVaR is also a component of market risk regulatory capital. SVaR for us is calculated daily under its own dynamic window regime. 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.

Sensitivity Analysis

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

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 daily basis. For example, we currently include a stress test that simulates a Lehman-type crisis scenario by taking the worst 20-trading day peak to trough moves for the various risk factors that go into VaR from that period, and assumes they occurred simultaneously.

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VaR Model Review and Validation

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

VaR Backtesting

Backtesting is one form of validation of the VaR model. 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 our banking regulators, for interest rate and foreign exchange positions. The following graph shows our daily net trading revenue and total internal, modeled VaR for the quarters ended September 30, 2016, June 30, 2016, March 31, 2016, December 31, 2015 and September 30, 2015.

Daily VaR Backtesting: Sub-portfolio Level Backtesting[(1)]

[1)] The back testing graph reflects seven daily adjustments made during second quarter 2016 and six daily adjustments made during third quarter 2016 to compensate for a risk position feed that overstated VaR/SVaR for those days.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information presented in the “Market Risk” section of Part I, Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. The design of any disclosure controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. In accordance with Rule 13a-15(b) of the Exchange Act, as of the end of the period covered by this quarterly report, an evaluation was carried out under the supervision and with the participation of the Company’s management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures, as of the end of the period covered by this quarterly report, were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to the Company’s management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this quarterly report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

CITIZENS FINANCIAL GROUP, INC.

PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS

In addition to the matters described in the Company's Form 10-K for the year ended December 31, 2015, information required by this item is set forth in Note 12 “Commitments and Contingencies” in the Notes to the unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements of this report, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should consider the risks described under the caption “Risk Factors” in the Company’s Form 10-K for the year ended December 31, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Details of the repurchases of the Company’s common stock during the three months ended September 30, 2016 are included in the following table:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Dollar Amount of Shares That May Yet Be Purchased As Part of Publicly Announced Plans or Programs [1]
July 1, 2016 - July 31, 2016	9,624,094	$22.60	9,624,094	$472,495,476
August 1, 2016 - August 31, 2016	—	$—	—	—
September 1, 2016 - September 30, 2016	1,438,098	$22.60	1,438,098	$440,000,000

[1] On June 29, 2016, the Company announced that its 2016 Capital Plan, submitted as part of the CCAR process and not objected to by the FRB, included share repurchases of CFG common stock of up to $690 million for the four-quarter period ending with the second quarter of 2017. This share repurchase plan, which was approved by the Company’s Board of Directors at the time of the announcement, allows for share repurchases that may be executed in the open market or in privately negotiated transactions, including under Rule 10b5-1 plans. Shares repurchased by the Company during the third quarter 2016 were executed pursuant to an accelerated share repurchase transaction, which was commenced during the quarter and completed by September 30, 2016. The timing and exact amount of share repurchases will be consistent with the 2016 Capital Plan and will be subject to various factors, including the Company’s capital position, financial performance and market conditions.

ITEM 6. EXHIBITS

3.1 Amended and Restated Certificate of Incorporation of the Registrant as in effect on the date hereof (incorporated herein by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q, filed November 14, 2014)

3.2 Bylaws of the Registrant (as amended and restated on October 20, 2016) (incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed October 24, 2016)

10.1	Executive Employment Agreement dated November 3, 2016, between the Registrant and John Fawcett †*
11.1	Statement re computation of earnings per share (filed herewith as Note 19 to the unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements of this report, which is incorporated herein by reference)
12.1	Computation of Ratio of Earnings to Fixed Charges*
12.2	Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

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101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2016, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements*

† Indicates management contract or compensatory plan or arrangement.
* Filed herewith.

CITIZENS FINANCIAL GROUP, INC.

SIGNATURE

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 on November 4, 2016.

CITIZENS FINANCIAL GROUP, INC.
(Registrant)

By: /s/ Randall J. Black
Name: Randall J. Black
Title: Executive Vice President and Controller
(Principal Accounting Officer and Authorized Officer)