CITIZENS FINANCIAL GROUP INC/RI
Form 10-Q
November 04, 2016

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

For the Quarterly Period Ended
September 30, 2016

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From
(Not Applicable)
Commission File Number 001-36636
CITIZENS FINANCIAL GROUP, INC.
(Exact name of the registrant as specified in its charter)

Delaware	05-0412693
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

One Citizens Plaza, Providence, RI 02903
(Address of principal executive offices, including zip code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.
[ü] Yes [] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
[ü] Yes [ ] No

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

Large accelerated filer [ü] Accelerated filer [ ]
Non-accelerated filer (Do not check if a smaller reporting company) [ ] 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 [ü] No

There were 511,877,853 shares of Registrant's common stock ($0.01 par value) outstanding on November 1, 2016.

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CITIZENS FINANCIAL GROUP, INC.

GLOSSARY OF ACRONYMS AND TERMS

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

AFS	Available for Sale
ALLL	Allowance for Loan and Lease Losses
AOCI	Accumulated Other Comprehensive Income (Loss)
ASU	Accounting Standards Update
ATM	Automated Teller Machine
BHC	Bank Holding Company
bps	Basis Points
C&I	Commercial and Industrial
Capital Plan Rule	Federal Reserve’s Regulation Y Capital Plan Rule
CBNA	Citizens Bank, N.A.
CBPA	Citizens Bank of Pennsylvania
CCAR	Comprehensive Capital Analysis and Review
CCB	Capital Conservation Buffer
CCO	Chief Credit Officer
CET1	Common Equity Tier 1
CEO	Chief Executive Officer
CFPB	Consumer Financial Protection Bureau
Citizens or CFG or the Company	Citizens Financial Group, Inc. and its Subsidiaries
CLTV	Combined Loan to Value
CMO	Collateralized Mortgage Obligation
CRE	Commercial Real Estate
CRO	Chief Risk Officer
DFAST	Dodd-Frank Act Stress Test
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EPS	Earnings Per Share
ERISA	Employee Retirement Income Security Act of 1974
Fannie Mae (FNMA)	Federal National Mortgage Association
FASB	Financial Accounting Standards Board
FDIA	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation (credit rating)
FRB	Federal Reserve Bank
FRBG	Federal Reserve Board of Governors
Freddie Mac (FHLMC)	Federal Home Loan Mortgage Corporation
FTP	Funds Transfer Pricing
GAAP	Accounting Principles Generally Accepted in the United States of America
GDP	Gross Domestic Product
Ginnie Mae (GNMA)	Government National Mortgage Association
HELOC	Home Equity Line of Credit
HTM	Held To Maturity
LCR	Liquidity Coverage Ratio

LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LIHTC	Low Income Housing Tax Credit
LTV	Loan to Value
MBS	Mortgage-Backed Securities
MSR	Mortgage Servicing Right
NSFR	Net Stable Funding Ratio
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income
PD	Probability of Default
peers or peer banks or peer regional banks	BB&T, Comerica, Fifth Third, KeyCorp, M&T, PNC, Regions, SunTrust and U.S. Bancorp
RBS	The Royal Bank of Scotland Group plc or any of its subsidiaries
RPA	Risk Participation Agreement
SBO	Serviced by Others loan portfolio
SEC	United States Securities and Exchange Commission
SVaR	Stressed Value at Risk
TDR	Troubled Debt Restructuring
VaR	Value at Risk

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data)	September 30, 2016	December 31, 2015
ASSETS:		
Cash and due from banks	$915	$1,099
Interest-bearing cash and due from banks	2,000	1,986
Interest-bearing deposits in banks	720	356
Securities available for sale, at fair value (including $229 and $4,283 pledged to creditors, respectively) (a)	19,425	17,884
Securities held to maturity (including $0 and $135 pledged to creditors, respectively, and fair value of $5,431 and $5,297, respectively) (a)	5,289	5,258
Other investment securities, at fair value	113	70
Other investment securities, at cost	877	863
Loans held for sale, at fair value	526	325
Other loans held for sale	—	40
Loans and leases	105,467	99,042
Less: Allowance for loan and lease losses	1,240	1,216
Net loans and leases	104,227	97,826
Derivative assets	1,102	625
Premises and equipment, net	540	595
Bank-owned life insurance	1,600	1,564
Goodwill	6,876	6,876
Other assets	2,805	2,841
TOTAL ASSETS	$147,015	$138,208
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$27,292	$27,649
Interest-bearing	81,035	74,890
Total deposits	108,327	102,539
Federal funds purchased and securities sold under agreements to repurchase	900	802
Other short-term borrowed funds	2,512	2,630
Derivative liabilities	840	485
Deferred taxes, net	994	730
Long-term borrowed funds	11,902	9,886
Other liabilities	1,359	1,490
TOTAL LIABILITIES	$126,834	$118,562
Contingencies (refer to Note 12)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $25.00 par value, authorized 100,000,000 shares:		
Series A, non-cumulative perpetual, $25.00 par value (liquidation preference $1,000), 250,000 shares authorized and issued net of issuance costs and related premium at September 30, 2016 and December 31, 2015	$247	$247
Common stock:		
$0.01 par value, 1,000,000,000 shares authorized, 564,553,524 shares issued and 518,148,345 shares outstanding at September 30, 2016 and 1,000,000,000 shares authorized, 563,117,415 shares issued and 527,774,428 shares outstanding at December 31, 2015	6	6

Additional paid-in capital	18,740	18,725
Retained earnings	2,483	1,913
Treasury Stock, at cost, 46,405,179 and 35,342,987 shares at September 30, 2016 and December 31, 2015, respectively	(1,108)	(858)
Accumulated other comprehensive loss	(187)	(387)
TOTAL STOCKHOLDERS' EQUITY	$20,181	$19,646
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$147,015	$138,208

(a) Includes only collateral pledged by the Company where counterparties have the right to sell or pledge the collateral.

The accompanying Notes to unaudited interim Consolidated Financial Statements are an integral part of these statements.

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except share and per-share data)	2016	2015	2016	2015
INTEREST INCOME:				
Interest and fees on loans and leases	$926	$812	$2,690	$2,381
Interest and fees on loans held for sale, at fair value	4	3	10	8
Interest and fees on other loans held for sale	1	3	6	7
Investment securities	146	154	432	468
Interest-bearing deposits in banks	2	2	6	4
Total interest income	1,079	974	3,144	2,868
INTEREST EXPENSE:				
Deposits	71	65	194	177
Federal funds purchased and securities sold under agreements to repurchase	1	4	2	13
Other short-term borrowed funds	10	17	33	51
Long-term borrowed funds	52	32	143	95
Total interest expense	134	118	372	336
Net interest income	945	856	2,772	2,532
Provision for credit losses	86	76	267	211
Net interest income after provision for credit losses	859	780	2,505	2,321
NONINTEREST INCOME:				
Service charges and fees	152	145	446	419
Card fees	52	60	153	172
Trust and investment services fees	37	41	112	118
Capital markets fees	34	21	91	73
Foreign exchange and letter of credit fees	23	22	65	67
Mortgage banking fees	33	18	76	81
Bank-owned life insurance income	14	14	40	40
Securities gains, net	—	2	13	19
Net securities impairment losses recognized in earnings	(3)	(2)	(11)	(5)
Other income	93	32	135	76
Total noninterest income	435	353	1,120	1,060
NONINTEREST EXPENSE:				
Salaries and employee benefits	432	404	1,289	1,234
Outside services	102	89	279	267
Occupancy	78	75	230	245
Equipment expense	65	62	194	190
Amortization of software	46	35	126	108
Other operating expense	144	133	387	405
Total noninterest expense	867	798	2,505	2,449
Income before income tax expense	427	335	1,120	932
Income tax expense	130	115	357	313
NET INCOME	$297	$220	$763	$619
Net income available to common stockholders	$290	$213	$749	$612
Weighted-average common shares outstanding:				
Basic	519,45[illegible]	[illegible]985,255	525,477,[illegible]	5[illegible]279,222

Diluted	521,12[illegible]	[illegible],698,158	527,261,[illegible]	[illegible],926,361
Per common share information:				
Basic earnings	$0.56	$0.40	$1.43	$1.14
Diluted earnings	0.56	0.40	1.42	1.13
Dividends declared and paid	0.12	0.10	0.34	0.30

The accompanying Notes to unaudited interim Consolidated Financial Statements are an integral part of these statements.

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Net income	$297	$220	$763	$619
Other comprehensive income (loss):				
Net unrealized derivative instrument (losses) gains arising during the periods, net of income taxes of $0, $30, $29 and $66, respectively	(1)	48	45	108
Reclassification adjustment for net derivative gains included in net income, net of income taxes of ($4), ($3), ($14) and ($5), respectively	(6)	(4)	(23)	(8)
Net unrealized securities available for sale (losses) gains arising during the periods, net of income taxes of ($17), $37, $114 and $25, respectively	(28)	61	190	41
Other-than-temporary impairment not recognized in earnings on securities, net of income taxes of $2, ($4), ($11) and ($15), respectively	3	(8)	(18)	(26)
Reclassification of net securities losses (gains) to net income, net of income taxes of $1, $0, ($1) and ($5), respectively	2	—	(1)	(9)
Defined benefit pension plans:				
Amortization of actuarial loss, net of income taxes of $2, $0, $5 and $3, respectively	2	3	7	7
Total other comprehensive (loss) income, net of income taxes	(28)	100	200	113
Total comprehensive income	$269	$320	$963	$732

The accompanying Notes to unaudited interim Consolidated Financial Statements are an integral part of these statements.

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(in millions)	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2015	—	$—	546	$6	$18,676	$1,294	($336)	($372)	$19,268
Dividends to common stockholders	—		—	—	—	(161)	—	—	(161)
Dividends to preferred stockholders	—		—	—	—	(7)	—	—	(7)
Issuance of preferred stock	—	247	—	—	—	—	—	—	247
Treasury stock purchased	—		(20)	—	—	—	(500)	—	(500)
Share-based compensation plans	—		2	—	35	—	(21)	—	14
Employee stock purchase plan shares purchased	—		—	—	7	—	—	—	7
Total comprehensive income:									
Net income	—		—	—	—	619	—	—	619
Other comprehensive income	—		—	—	—	—	—	113	113
Total comprehensive income	—		—	—	—	619	—	113	732
Balance at September 30, 2015	—	$247	528	$6	$18,718	$1,745	($857)	($259)	$19,600
Balance at January 1, 2016	—	$247	528	$6	$18,725	$1,913	($858)	($387)	$19,646
Dividends to common stockholders	—		—	—	—	(179)	—	—	(179)
Dividends to preferred stockholders	—		—	—	—	(14)	—	—	(14)
Treasury stock purchased	—		(11)	—	—	—	(250)	—	(250)
Share-based compensation plans	—		1	—	8	—	—	—	8
Employee stock purchase plan shares purchased	—		—	—	7	—	—	—	7
Total comprehensive income:									
Net income	—		—	—	—	763	—	—	763
Other comprehensive income	—		—	—	—	—		200	200
Total comprehensive income	—		—	—	—	763	—	200	963
Balance at September 30, 2016	—	$247	518	$6	$18,740	$2,483	($1,108)	($187)	$20,181

The accompanying Notes to unaudited interim Consolidated Financial Statements are an integral part of these statements.

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CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
(in millions)	2016	2015
OPERATING ACTIVITIES		
Net income	$763	$619
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	267	211
Originations of mortgage loans held for sale	(1,904)	(1,836)
Proceeds from sales of mortgage loans held for sale	1,775	1,780
Purchases of commercial loans held for sale	(1,053)	(887)
Proceeds from sales of commercial loans held for sale	1,040	826
Amortization of terminated cash flow hedges	6	13
Depreciation, amortization and accretion	387	350
Mortgage servicing rights valuation charge-off (recovery)	6	(6)
Securities impairment	11	5
Deferred income taxes	143	76
Share-based compensation	15	22
Net gain on sales of:		
Debt securities	(13)	(19)
Marketable equity securities available for sale	—	(3)
Premises and equipment	(2)	(9)
Increase in other assets	(305)	(306)
Increase (decrease) in other liabilities	62	(5)
Net cash provided by operating activities	1,198	831
INVESTING ACTIVITIES		
Investment securities:		
Purchases of securities available for sale	(4,774)	(5,418)
Proceeds from maturities and paydowns of securities available for sale	2,658	2,660
Proceeds from sales of securities available for sale	785	3,180
Purchases of securities held to maturity	(523)	(811)
Proceeds from maturities and paydowns of securities held to maturity	503	610
Proceeds from sales of securities held to maturity	—	73
Purchases of other investment securities, at fair value	(204)	(109)
Proceeds from sales of other investment securities, at fair value	161	92
Purchases of other investment securities, at cost	(84)	(33)
Proceeds from sales of other investment securities, at cost	70	78
Net (increase) decrease in interest-bearing deposits in banks	(364)	7
Net increase in loans and leases	(6,724)	(4,315)
Net increase in bank-owned life insurance	(36)	(26)
Premises and equipment:		
Purchases	(44)	(54)
Proceeds from sales	3	12
Capitalization of software	(126)	(142)
Net cash used in investing activities	(8,699)	(4,196)
FINANCING ACTIVITIES		

Net increase in deposits	5,788	6,159
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	98	(2,983)
Net decrease in other short-term borrowed funds	(1,635)	(1,152)
Proceeds from issuance of long-term borrowed funds	9,644	250
Repayments of long-term borrowed funds	(6,128)	(8)
Treasury stock purchased	(250)	(500)
Net proceeds from issuance of preferred stock	—	247
Dividends declared and paid to common stockholders	(179)	(161)
Dividends declared and paid to preferred stockholders	(7)	(7)
Net cash provided by financing activities	7,331	1,845
Decrease in cash and cash equivalents	(170)	(1,520)
Cash and cash equivalents at beginning of period	3,085	3,276
Cash and cash equivalents at end of period	$2,915	$1,756

The accompanying Notes to unaudited interim Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

Basis of Presentation

The unaudited interim Consolidated Financial Statements, including the Notes thereto of Citizens Financial Group, Inc., have been prepared in accordance with GAAP interim reporting requirements, and therefore do not include all information and Notes included in the audited Consolidated Financial Statements in conformity with GAAP. These unaudited interim Consolidated Financial Statements and Notes thereto should be read in conjunction with the Company's audited Consolidated Financial Statements and accompanying Notes included in the Company's Form 10-K for the year ended December 31, 2015. The Company's principal business activity is banking, conducted through its subsidiaries, Citizens Bank, N.A. and Citizens Bank of Pennsylvania.

The unaudited interim Consolidated Financial Statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results for interim periods are not necessarily indicative of results for a full year.

Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications had no effect on net income, total comprehensive income, total assets or total stockholders' equity as previously reported.

Recent Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments." The ASU provides guidance on classifying specific cash flows in the Statement of Cash Flows, including cash flows resulting from debt prepayment or debt extinguishment costs, the settlement of zero-coupon debt instruments (and other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing), payments on a transferor's beneficial interests in securitized trade receivables, and other specified sources. The ASU is effective for the Company beginning on January 1, 2018. Adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments." Under current GAAP, the Company reflects credit losses on financial assets measured on an amortized cost basis only when the losses are probable or have been incurred. The ASU replaces this approach with a forward-looking methodology that reflects the expected credit losses over the lives of financial assets, starting when the assets are first acquired. Under the revised methodology, credit losses will be measured based on past events, current conditions and reasonable and supportable forecasts that affect the collectability of financial assets. The ASU also revises the approach to recognizing credit losses on securities available for sale by allowing entities to record reversals of credit losses in current-period earnings. The ASU is effective for the Company beginning on January 1, 2020. The Company is currently assessing the impact of this guidance on the Company's Consolidated Financial Statements.

In May 2016, the FASB issued ASU No. 2016-12 "Revenue from Contracts with Customers (Topic 606) - Narrow-Scope Improvements and Practical Expedients." The ASU supplements the new revenue recognition standard issued in 2014 by addressing certain issues in the guidance on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The ASU is effective for the Company beginning on January 1, 2018. The Company is currently assessing the impact of this guidance on the Company's Consolidated Financial Statements.

In April 2016, the FASB issued ASU No. 2016-10 "Identifying Performance Obligations and Licensing." The ASU supplements the new revenue recognition standard issued in 2014 by clarifying the guidance related to licensing and the identification of performance obligations. The ASU is effective for the Company beginning on January 1, 2018. The Company is currently assessing the impact of this guidance on the Company's Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-09 "Improvements to Employee Share-Based Payment Accounting." The ASU modifies several aspects of the accounting for share-based payment transactions, including the income tax

consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The ASU is effective for the Company beginning on January 1, 2017. Adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-08 "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)." The ASU supplements the new revenue recognition standard issued in 2014 by clarifying the implementation guidance on principal versus agent considerations. The ASU is effective for the Company beginning on January 1, 2018. The Company is currently assessing the impact of this guidance on the Company's Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-05 "Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships." The ASU clarifies that a change in a counterparty to a derivative instrument that has been designated as a hedging instrument, in and of itself, does not result in a hedge de-designation under ASC 815. The ASU is effective for the

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Company beginning on January 1, 2017. Adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)." The ASU generally requires lessees to recognize a right-of use asset and corresponding lease liability for all leases with a lease term of greater than one year. The ASU is effective for the Company beginning on January 1, 2019. The Company is currently assessing the impact of this guidance on the Company's Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities." The ASU requires equity investments (except for those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in the fair value recognized through net income. The ASU also requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the notes to the financial statements. In addition, the ASU makes several other targeted amendments to the existing accounting and disclosure requirements for financial instruments, including revised guidance related to valuation allowance assessments when recognizing deferred tax assets on unrealized losses on debt securities available for sale. The ASU is effective for the Company beginning on January 1, 2018. The Company is currently assessing the impact of this guidance on the Company's Consolidated Financial Statements.

NOTE 2 - SECURITIES

The following table presents the major components of securities at amortized cost and fair value:

	September 30, 2016				December 31, 2015			
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale								
U.S. Treasury and other	$15	$—	$—	$15	$16	$—	$—	$16
State and political subdivisions	8	—	—	8	9	—	—	9
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	18,606	362	(12)	18,956	17,234	153	(67)	17,320
Other/non-agency	456	2	(29)	429	555	4	(37)	522
Total mortgage-backed securities	19,062	364	(41)	19,385	17,789	157	(104)	17,842
Total debt securities available for sale	19,085	364	(41)	19,408	17,814	157	(104)	17,867
Marketable equity securities	5	—	—	5	5	—	—	5
Other equity securities	12	—	—	12	12	—	—	12
Total equity securities available for sale	17	—	—	17	17	—	—	17
Total securities available for sale	$19,102	$364	($41)	$19,425	$17,831	$157	($104)	$17,884
Securities Held to Maturity								
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	$4,279	$102	($1)	$4,380	$4,105	$27	($11)	$4,121
Other/non-agency	1,010	41	—	1,051	1,153	23	—	1,176
Total securities held to maturity	$5,289	$143	($1)	$5,431	$5,258	$50	($11)	$5,297
Other Investment Securities, at Fair Value								
Money market mutual fund	$108	$—	$—	$108	$65	$—	$—	$65
Other investments	5	—	—	5	5	—	—	5
Total other investment securities, at fair value	$113	$—	$—	$113	$70	$—	$—	$70
Other Investment Securities, at Cost								

Federal Reserve Bank stock	$463	$—	$—	$463	$468	$—	$—	$468
Federal Home Loan Bank stock	414	—	—	414	395	—	—	395
Total other investment securities, at cost	$877	$—	$—	$877	$863	$—	$—	$863

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The Company has reviewed its securities portfolio for other-than-temporary impairments. The following table presents the net securities impairment losses recognized in earnings:

(in millions)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Other-than-temporary impairment:				
Total other-than-temporary impairment losses	$2	($14)	($40)	($46)
Portions of loss recognized in other comprehensive income (before taxes)	(5)	12	29	41
Net securities impairment losses recognized in earnings	($3)	($2)	($11)	($5)

The following tables present securities whose fair values are below carrying values, segregated by those that have been in a continuous unrealized loss position for less than twelve months and those that have been in a continuous unrealized loss position for twelve months or longer:

	September 30, 2016								
	Less than 12 Months			12 Months or Longer			Total		
(dollars in millions)	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses
Mortgage-backed securities:									
Federal agencies and U.S. government sponsored entities	17	$645	($2)	29	$704	($11)	46	$1,349	($13)
Other/non-agency	4	9	—	20	317	(29)	24	326	(29)
Total mortgage-backed securities	21	654	(2)	49	1,021	(40)	70	1,675	(42)
Total	21	$654	($2)	49	$1,021	($40)	70	$1,675	($42)

	December 31, 2015								
	Less than 12 Months			12 Months or Longer			Total		
(dollars in millions)	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses	Number of Issues	Fair Value	Gross Unrealized Losses
State and political subdivisions	1	$9	$—	—	$—	$—	1	$9	$—
U.S. Treasury and other	1	15	—	—	—	—	1	15	—
Mortgage-backed securities:									
Federal agencies and U.S. government sponsored entities	162	7,423	(51)	36	819	(27)	198	8,242	(78)
Other/non-agency	2	9	—	20	361	(37)	22	370	(37)
Total mortgage-backed securities	164	7,432	(51)	56	1,180	(64)	220	8,612	(115)
Total	166	$7,456	($51)	56	$1,180	($64)	222	$8,636	($115)

For each debt security identified with an unrealized loss, the Company reviews the expected cash flows to determine if the impairment in value is temporary or other-than-temporary. If the Company determines that the present value of the

debt security's expected cash flows is less than its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. The amount of impairment loss recognized in current period earnings is dependent on the Company's intent to sell (or not sell) the debt security.

If the Company intends to sell the impaired debt security, the impairment loss recognized in current period earnings equals the difference between the debt security's fair value and its amortized cost. If the Company does not intend to sell the impaired debt security, and it is not more likely than not that the Company will be required to sell the impaired security, the credit-related impairment loss is recognized in current period earnings and equals the difference between the amortized cost of the debt security and the present value of the expected future cash flows.

In addition to these cash flow projections, several other characteristics of each debt security are reviewed when determining whether a credit loss exists and the period over which the debt security is expected to recover. These characteristics include: (1) the type of investment, (2) various market factors affecting the fair value of the security (e.g., interest rates, spread levels, liquidity in the sector, etc.), (3) the length and severity of impairment, and (4) the public credit rating of the instrument.

The Company estimates the portion of loss attributable to credit using a collateral loss model and an integrated cash flow engine. The model calculates prepayment, default, and loss severity assumptions using collateral performance data. These assumptions are used to produce cash flows that generate loss projections. These loss projections are reviewed on a quarterly basis by a cross-functional governance committee to determine whether security impairments are other-than-temporary.

The following table presents the cumulative credit-related losses recognized in earnings on debt securities held by the Company:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Cumulative balance at beginning of period	$73	$62	$66	$62
Credit impairments recognized in earnings on securities that have been previously impaired	3	2	11	5
Reductions due to increases in cash flow expectations on impaired securities	(1)	(1)	(2)	(4)
Cumulative balance at end of period	$75	$63	$75	$63

Cumulative credit losses recognized in earnings for impaired AFS debt securities held as of September 30, 2016 and 2015 were $75 million and $63 million, respectively. There were no credit losses recognized in earnings for the Company's HTM portfolio as of September 30, 2016 and 2015.

For the three months ended September 30, 2016 and 2015, the Company recognized credit related other-than-temporary-impairment losses in earnings of $3 million and $2 million respectively, related to non-agency MBS in the AFS portfolio.

For the nine months ended September 30, 2016 and 2015, the Company recognized credit related other-than-temporary impairment losses in earnings of $11 million and $5 million, respectively. Other-than-temporary impairment losses for the nine months ended September 30, 2016 reflect a $5 million increase from September 30, 2015 related to a one-time adjustment tied to a new model implementation. This adjustment was the result of the Company migrating in June 2016 from a proprietary internal process to a vendor-based model to estimate other-than-temporary impairment. There were no credit impaired debt securities sold during the three and nine months ended September 30, 2016 and 2015. Reductions in credit losses due to increases in cash flow expectations were $1 million for the three months ended September 30, 2016 and 2015, and $2 million and $4 million for the nine months ended September 30, 2016 and 2015, respectively, and were presented in interest income from investment securities on the Consolidated Statements of Operations. The Company does not currently have the intent to sell these debt securities, and it is not more likely than not that the Company will be required to sell these debt securities prior to the recovery of their amortized cost bases.

The Company has determined that credit losses are not expected to be incurred on the remaining agency and non-agency MBS identified with unrealized losses as of the current reporting date. The unrealized losses on these debt securities reflect the reduced liquidity in the MBS market and increased risk spreads due to the uncertainty of the U.S. macroeconomic environment. Therefore, the Company has determined that these debt securities are not other-than-temporarily impaired because the Company does not currently have the intent to sell these debt securities, and it is not more likely than not that the Company will be required to sell these debt securities prior to the recovery of their amortized cost bases. Any subsequent increases in the valuation of impaired debt securities do not impact their recorded cost bases. Additionally, $29 million and $41 million of pre-tax non-credit related losses were deferred in OCI for the nine months ended September 30, 2016 and 2015, respectively.

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The amortized cost and fair value of debt securities by contractual maturity are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without incurring penalties.

	September 30, 2016				
	Distribution of Maturities				
(in millions)	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	Total
Amortized Cost:					
Debt securities available for sale					
U.S. Treasury and other	$15	$—	$—	$—	$15
State and political subdivisions	—	—	—	8	8
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	10	32	1,546	17,018	18,606
Other/non-agency	—	40	3	413	456
Total debt securities available for sale	25	72	1,549	17,439	19,085
Debt securities held to maturity					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	4,279	4,279
Other/non-agency	—	—	—	1,010	1,010
Total debt securities held to maturity	—	—	—	5,289	5,289
Total amortized cost of debt securities	$25	$72	$1,549	$22,728	$24,374
Fair Value:					
Debt securities available for sale					
U.S. Treasury and other	$15	$—	$—	$—	$15
State and political subdivisions	—	—	—	8	8
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	10	33	1,585	17,328	18,956
Other/non-agency	—	41	3	385	429
Total debt securities available for sale	25	74	1,588	17,721	19,408
Debt securities held to maturity					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	4,380	4,380
Other/non-agency	—	—	—	1,051	1,051
Total debt securities held to maturity	—	—	—	5,431	5,431
Total fair value of debt securities	$25	$74	$1,588	$23,152	$24,839

Taxable interest income from investment securities as presented on the Consolidated Statements of Operations was $146 million and $154 million for the three months ended September 30, 2016 and 2015, respectively, and was $432 million and $468 million for the nine months ended September 30, 2016 and 2015, respectively.

Realized gains and losses on securities are presented below:

	Three Months Ended	Nine Months Ended

	September 30,		September 30,	
(in millions)	2016	2015	2016	2015
Gains on sale of debt securities	$—	$7	$13	$29
Losses on sale of debt securities	—	(7)	—	(12)
Debt securities gains, net	$—	$—	$13	$17
Equity securities gains	$—	$—	$—	$3

In advance of the Volcker Rule effective date, during the three months ended September 30, 2015, the Company sold a $73 million mortgage-backed security that was classified as HTM that would have been prohibited under the Volcker Rule beginning in July 2017. Upon completion of the sale, the Company recognized a $2 million gain.

The amortized cost and fair value of securities pledged are presented below:

(in millions)	September 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pledged against repurchase agreements	$795	$808	$805	$808
Pledged against FHLB borrowed funds	1,018	1,060	1,163	1,186
Pledged against derivatives, to qualify for fiduciary powers, and to secure public and other deposits as required by law	3,247	3,329	3,579	3,610

The Company regularly enters into security repurchase agreements with unrelated counterparties. Repurchase agreements are financial transactions that involve the transfer of a security from one party to another and a subsequent transfer of the same (or "substantially the same") security back to the original party. The Company's repurchase agreements are typically short-term transactions, but they may be extended to longer terms to maturity. Such transactions are accounted for as secured borrowed funds on the Company's Consolidated Balance Sheets. When permitted by GAAP, the Company offsets short-term receivables associated with its reverse repurchase agreements against short-term payables associated with its repurchase agreements.
The impact of this offsetting on the Consolidated Balance Sheets is presented in the following table:

(in millions)	September 30, 2016			December 31, 2015		
	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts of Assets (Liabilities)	Gross Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts of Assets (Liabilities)
Securities purchased under agreements to resell	$—	$—	$—	$500	($500)	$—
Securities sold under agreements to repurchase	—	—	—	(500)	500	—

Note: The Company also offsets certain derivative assets and derivative liabilities on the Consolidated Balance Sheets. For further information see Note 11 "Derivatives."

There were $16 million and $21 million in securitizations of mortgage loans retained in the investment portfolio for the three and nine months ended September 30, 2016 and none in 2015. These securitizations included a substantive guarantee by a third party. In 2016, the guarantors were Fannie Mae and Ginnie Mae. These securitizations were accounted for as a sale of the transferred loans and as a purchase of securities. The securities received from the guarantors are classified as AFS.

NOTE 3 - LOANS AND LEASES

The Company's loans and leases are disclosed in portfolio segments and classes. The Company's loan and lease portfolio segments are commercial and retail. The classes of loans and leases are: commercial, commercial real estate, leases, residential mortgages, home equity loans, home equity lines of credit, home equity loans serviced by others, home equity lines of credit serviced by others, automobile, student, credit cards and other retail. The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others, which the Company now services a portion of internally. A summary of the loans and leases portfolio follows:

(in millions)	September 30, 2016	December 31, 2015
Commercial	$36,449	$33,264
Commercial real estate	10,152	8,971
Leases	3,788	3,979
Total commercial	50,389	46,214
Residential mortgages	14,602	13,318
Home equity loans	2,027	2,557
Home equity lines of credit	14,271	14,674
Home equity loans serviced by others	796	986
Home equity lines of credit serviced by others	238	389
Automobile	14,063	13,828
Student	5,997	4,359
Credit cards	1,644	1,634
Other retail	1,440	1,083
Total retail	55,078	52,828
Total loans and leases (1) (2)	$105,467	$99,042

(1) Excluded from the table above are loans held for sale totaling $526 million and $365 million as of September 30, 2016 and December 31, 2015, respectively.
(2) Mortgage loans serviced for others by the Company's subsidiaries are not included above and amounted to $17.4 billion and $17.6 billion at September 30, 2016 and December 31, 2015, respectively.

During the three months ended September 30, 2016, the Company purchased $222 million of residential mortgages, $200 million of automobile loans and $126 million of student loans. During the three months ended September 30, 2015, the Company purchased $252 million of residential mortgages, $326 million of automobile loans and $152 million of student loans.

During the nine months ended September 30, 2016, the Company purchased $405 million of residential mortgages, $534 million of automobile loans and $843 million of student loans. During the nine months ended September 30, 2015, the Company purchased $887 million of residential mortgages, $1.1 billion of automobile loans and $615 million of student loans.

During the three and nine months ended September 30, 2016, the Company sold $310 million of TDRs, including $255 million of residential mortgages and $55 million of home equity loans, which resulted in a pre-tax gain of $72 million reported in other income on the Consolidated Statements of Operations.

Additionally, during the three months ended September 30, 2016, the Company sold $163 million of residential mortgage loans and $14 million of commercial loans. During the three months ended September 30, 2015, the Company sold $41 million of credit card balances associated with a terminated agent servicing agreement and $100 million of commercial loans.

During the nine months ended September 30, 2016, the Company also sold $444 million of residential mortgage loans and $132 million of commercial loans. During the nine months ended September 30, 2015, the Company sold $273 million of residential mortgage loans, $41 million of credit card balances and $325 million of commercial loans.

Loans held for sale at fair value totaled $526 million and $325 million at September 30, 2016 and December 31, 2015, respectively, and consisted of residential mortgages originated for sale of $456 million and loans in commercial trading portfolio of $70 million as of September 30, 2016. As of December 31, 2015, residential mortgages originated for sale were $268 million and loans in commercial trading portfolio totaled $57 million. Following the TDR sale described above, there were no other loans held for sale, at lower of cost or market value, as of September 30, 2016. As of December 31, 2015, there were $40 million of other loans held for sale, which consisted of commercial loan syndications.

Loans pledged as collateral for FHLB borrowed funds totaled $23.2 billion at September 30, 2016 and December 31, 2015. This collateral consists primarily of residential mortgages and home equity loans. Loans pledged as collateral to support

the contingent ability to borrow at the FRB discount window, if necessary, totaled $16.9 billion and $15.9 billion at September 30, 2016 and December 31, 2015, respectively.

NOTE 4 - ALLOWANCE FOR CREDIT LOSSES, NONPERFORMING ASSETS, AND CONCENTRATIONS OF CREDIT RISK

The allowance for credit losses consists of the ALLL and the reserve for unfunded commitments. It is increased through a provision for credit losses that is charged to earnings, based on the Company’s quarterly evaluation of the loan portfolio, and is reduced by net charge-offs and the ALLL associated with sold loans. See Note 1 “Significant Accounting Policies” to the Company’s audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2015, for a detailed discussion of ALLL reserve methodologies and estimation techniques.

On a quarterly basis, the Company reviews and refines its estimate of the allowance for credit losses, taking into consideration changes in portfolio size and composition, historical loss experience, internal risk ratings, current economic conditions, industry performance trends and other pertinent information.

There were no material changes in assumptions or estimation techniques compared with prior periods that impacted the determination of the current period’s ALLL and the reserve for unfunded lending commitments. However, as part of the annual review of loss emergence periods, the incurred loss periods for retail property secured loans were extended.

A summary of changes in the allowance for credit losses is presented below:

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
(in millions)	Commercial	Retail	Total	Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	$676	$570	$1,246	$596	$620	$1,216
Charge-offs	(33)	(112)	(145)	(53)	(331)	(384)
Recoveries	14	48	62	23	130	153
Net charge-offs	(19)	(64)	(83)	(30)	(201)	(231)
Provision charged to income	(2)	79	77	89	166	255
Allowance for loan and lease losses, end of period	655	585	1,240	655	585	1,240
Reserve for unfunded lending commitments, beginning of period	61	—	61	58	—	58
Credit for unfunded lending commitments	9	—	9	12	—	12
Reserve for unfunded lending commitments as of period end	70	—	70	70	—	70
Total allowance for credit losses as of period end	$725	$585	$1,310	$725	$585	$1,310

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
(in millions)	Commercial	Retail	Total	Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	$565	$636	$1,201	$544	$651	$1,195
Charge-offs	(11)	(109)	(120)	(32)	(324)	(356)
Recoveries	6	39	45	42	107	149
Net (charge-offs) recoveries	(5)	(70)	(75)	10	(217)	(207)
Sales/Other	—	2	2	—	—	—
Provision charged to income	15	58	73	21	192	213
Allowance for loan and lease losses, end of period	575	626	1,201	575	626	1,201
Reserve for unfunded lending commitments, beginning of period	56	—	56	61	—	61
Provision for unfunded lending commitments	3	—	3	(2)	—	(2)
Reserve for unfunded lending commitments as of period end	59	—	59	59	—	59
Total allowance for credit losses as of period end	$634	$626	$1,260	$634	$626	$1,260

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The recorded investment in loans and leases based on the Company's evaluation methodology is presented below:

	September 30, 2016			December 31, 2015		
(in millions)	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	$438	$812	$1,250	$218	$1,165	$1,383
Formula-based evaluation	49,951	54,266	104,217	45,996	51,663	97,659
Total	$50,389	$55,078	$105,467	$46,214	$52,828	$99,042

A summary of the allowance for credit losses by evaluation method is presented below:

	September 30, 2016			December 31, 2015		
(in millions)	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	$55	$78	$133	$36	$101	$137
Formula-based evaluation	670	507	1,177	618	519	1,137
Allowance for credit losses	$725	$585	$1,310	$654	$620	$1,274

For commercial loans and leases, the Company utilizes regulatory classification ratings to monitor credit quality. Loans with a "pass" rating are those that the Company believes will be fully repaid in accordance with the contractual loan terms. Commercial loans and leases that are "criticized" are those that have some weakness or potential weakness that indicates an increased probability of future loss. "Criticized" loans are grouped into three categories, "special mention," "substandard" and "doubtful." Special mention loans have potential weaknesses that, if left uncorrected, may result in deterioration of the Company's credit position at some future date. Substandard loans are inadequately protected loans; these loans have well-defined weaknesses that could hinder normal repayment or collection of the debt. Doubtful loans have the same weaknesses as substandard, with the added characteristics that the possibility of loss is high and collection of the full amount of the loan is improbable. For retail loans, the Company primarily uses the loan's payment and delinquency status to monitor credit quality. The further a loan is past due, the greater the likelihood of future credit loss. These credit quality indicators for both commercial and retail loans are continually updated and monitored.

The recorded investment in commercial loans and leases based on regulatory classification ratings is presented below:

	September 30, 2016				
		Criticized			
(in millions)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$34,245	$883	$1,138	$183	$36,449
Commercial real estate	9,646	355	89	62	10,152
Leases	3,608	53	122	5	3,788
Total	$47,499	$1,291	$1,349	$250	$50,389

	December 31, 2015				
		Criticized			
(in millions)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$31,276	$911	$1,002	$75	$33,264
Commercial real estate	8,450	272	171	78	8,971
Leases	3,880	55	44	—	3,979
Total	$43,606	$1,238	$1,217	$153	$46,214

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The recorded investment in classes of retail loans, categorized by delinquency status is presented below:

	September 30, 2016					
		Days Past Due				
(in millions)	Current	1-29	30-59	60-89	90 or More	Total
Residential mortgages	$14,314	$102	$32	$17	$137	$14,602
Home equity loans	1,803	119	17	8	80	2,027
Home equity lines of credit	13,638	367	44	22	200	14,271
Home equity loans serviced by others	718	45	11	5	17	796
Home equity lines of credit serviced by others	168	25	3	3	39	238
Automobile	12,911	945	129	31	47	14,063
Student	5,804	115	22	11	45	5,997
Credit cards	1,563	46	11	8	16	1,644
Other retail	1,385	40	7	3	5	1,440
Total	$52,304	$1,804	$276	$108	$586	$55,078

	December 31, 2015					
		Days Past Due				
(in millions)	Current	1-29	30-59	60-89	90 or More	Total
Residential mortgages	$12,905	$97	$54	$16	$246	$13,318
Home equity loans	2,245	164	32	12	104	2,557
Home equity lines of credit	13,982	407	60	20	205	14,674
Home equity loans serviced by others	886	60	14	6	20	986
Home equity lines of credit serviced by others	296	48	10	6	29	389
Automobile	12,670	964	127	32	35	13,828
Student	4,175	113	19	11	41	4,359
Credit cards	1,554	44	11	9	16	1,634
Other retail	1,013	53	8	4	5	1,083
Total	$49,726	$1,950	$335	$116	$701	$52,828

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Nonperforming Assets

The following table presents nonperforming loans and leases and loans accruing and 90 days or more past due:

(in millions)	Nonperforming [1]		Accruing and 90 days or more past due	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Commercial	$334	$71	$1	$1
Commercial real estate	62	77	—	—
Leases	—	—	—	—
Total commercial	396	148	1	1
Residential mortgages [2] [3]	170	331	16	—
Home equity loans	105	135	—	—
Home equity lines of credit	249	272	—	—
Home equity loans serviced by others	32	38	—	—
Home equity lines of credit serviced by others	42	32	—	—
Automobile	55	42	—	—
Student	38	41	6	6
Credit card	16	16	—	—
Other retail	4	5	1	2
Total retail	711	912	23	8
Total	$1,107	$1,060	$24	$9

[1] Effective March 31, 2016, the Company began excluding loans 90 days or more past due and still accruing from nonperforming loans and leases. Nonperforming loans and leases as of December 31, 2015 included loans and leases on nonaccrual of $1.051 billion and loans and leases accruing and 90 days or more past due of $9 million.

[2] Effective March 31, 2016, the Company began excluding first lien residential mortgage loans that are 100% guaranteed by the Federal Housing Administration from nonperforming balances. As of September 30, 2016, $16 million of these loans were accruing and 90 days or more past due.

[3] Effective March 31, 2016, the Company began excluding guaranteed residential mortgage loans sold to GNMA for which the Company had the right, but not the obligation, to repurchase from nonperforming balances. As of September 30, 2016 these loans totaled $32 million. These loans are consolidated on the Company's Consolidated Balance Sheets.

Other nonperforming assets consist primarily of other real estate owned and are presented in other assets on the Consolidated Balance Sheets. A summary of other nonperforming assets is presented below:

(in millions)	September 30, 2016	December 31, 2015
Other nonperforming assets, net of valuation allowance:		
Commercial	$—	$1
Retail	49	45
Other nonperforming assets, net of valuation allowance	$49	$46

A summary of key performance indicators is presented below:

	September 30, 2016		December 31, 2015	
Nonperforming commercial loans and leases as a percentage of total loans and leases [1]	0.38	%	0.15	%

Nonperforming retail loans as a percentage of total loans and leases [1]	0.67		0.92	
Total nonperforming loans and leases as a percentage of total loans and leases [1]	1.05	%	1.07	%
Nonperforming commercial assets as a percentage of total assets [1]	0.27	%	0.11	%
Nonperforming retail assets as a percentage of total assets [1]	0.52		0.69	
Total nonperforming assets as a percentage of total assets [1]	0.79	%	0.80	%

[1] December 31, 2015 ratios included loans accruing and 90 days or more past due of $1 million and $8 million for commercial and retail, respectively.

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The recorded investment in mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings are in process was $198 million and $257 million as of September 30, 2016 and December 31, 2015, respectively.
An analysis of the age of both accruing and nonaccruing loan and lease past due amounts is presented below:

	September 30, 2016				December 31, 2015			
	Days Past Due				Days Past Due			
(in millions)	30-59	60-89	90 or More	Total	30-59	60-89	90 or More	Total
Commercial	$24	$9	$335	$368	$9	$4	$71	$84
Commercial real estate	1	1	62	64	30	3	77	110
Leases	14	—	—	14	9	1	—	10
Total commercial	39	10	397	446	48	8	148	204
Residential mortgages	32	17	137	186	54	16	246	316
Home equity loans	17	8	80	105	32	12	104	148
Home equity lines of credit	44	22	200	266	60	20	205	285
Home equity loans serviced by others	11	5	17	33	14	6	20	40
Home equity lines of credit serviced by others	3	3	39	45	10	6	29	45
Automobile	129	31	47	207	127	32	35	194
Student	22	11	45	78	19	11	41	71
Credit cards	11	8	16	35	11	9	16	36
Other retail	7	3	5	15	8	4	5	17
Total retail	276	108	586	970	335	116	701	1,152
Total	$315	$118	$983	$1,416	$383	$124	$849	$1,356

Impaired loans include nonaccruing larger balance commercial loans (greater than $3 million carrying value) and commercial and retail TDRs (excluding loans held for sale). A summary of impaired loans by class is presented below:

	September 30, 2016				
(in millions)	Impaired Loans With a Related Allowance	Allowance on Impaired Loans	Impaired Loans Without a Related Allowance	Unpaid Contractual Balance	Total Recorded Investment in Impaired Loans
Commercial	$256	$46	$137	$439	$393
Commercial real estate	45	9	—	45	45
Total commercial	301	55	137	484	438
Residential mortgages	43	4	132	229	175
Home equity loans	53	6	99	193	152
Home equity lines of credit	26	3	171	241	197
Home equity loans serviced by others	43	7	21	74	64
Home equity lines of credit serviced by others	2	—	7	13	9
Automobile	4	1	14	23	18
Student	158	44	1	159	159
Credit cards	26	10	—	26	26
Other retail	10	3	2	13	12
Total retail	365	78	447	971	812

Total	$666	$133	$584	$1,455	$1,250

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(in millions)	December 31, 2015				
	Impaired Loans With a Related Allowance	Allowance on Impaired Loans	Impaired Loans Without a Related Allowance	Unpaid Contractual Balance	Total Recorded Investment in Impaired Loans
Commercial	$92	$23	$58	$144	$150
Commercial real estate	56	13	12	70	68
Total commercial	148	36	70	214	218
Residential mortgages	121	16	320	608	441
Home equity loans	85	11	139	283	224
Home equity lines of credit	27	2	167	234	194
Home equity loans serviced by others	50	8	24	88	74
Home equity lines of credit serviced by others	3	1	7	14	10
Automobile	3	—	11	19	14
Student	163	48	2	165	165
Credit cards	28	11	—	28	28
Other retail	13	4	2	18	15
Total retail	493	101	672	1,457	1,165
Total	$641	$137	$742	$1,671	$1,383

Additional information on impaired loans is presented below:

(in millions)	Three Months Ended September 30,			
	2016		2015	
	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
Commercial	$1	$340	$1	$126
Commercial real estate	—	40	—	35
Total commercial	1	380	1	161
Residential mortgages	1	169	4	428
Home equity loans	2	153	2	277
Home equity lines of credit	2	192	1	142
Home equity loans serviced by others	1	64	1	79
Home equity lines of credit serviced by others	—	9	—	10
Automobile	—	17	—	12
Student	1	159	1	165
Credit cards	—	25	—	29
Other retail	1	12	1	17
Total retail	8	800	10	1,159
Total	$9	$1,180	$11	$1,320

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	Nine Months Ended September 30,			
	2016		2015	
(in millions)	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
Commercial	$4	$277	$2	$133
Commercial real estate	—	53	1	45
Total commercial	4	330	3	178
Residential mortgages	3	161	12	423
Home equity loans	5	151	7	263
Home equity lines of credit	5	182	3	140
Home equity loans serviced by others	3	64	3	80
Home equity lines of credit serviced by others	—	9	—	9
Automobile	—	14	—	11
Student	5	157	5	160
Credit cards	1	25	1	28
Other retail	1	13	1	18
Total retail	23	776	32	1,132
Total	$27	$1,106	$35	$1,310

Troubled Debt Restructurings

A loan modification is identified as a TDR when the Company or a bankruptcy court grants the borrower a concession the Company would not otherwise make in response to the borrower's financial difficulties. TDRs typically result from the Company's loss mitigation efforts and are undertaken in order to improve the likelihood of recovery and continuity of the relationship. The Company's loan modifications are handled on a case-by-case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet the borrower's financial needs. Concessions granted in TDRs for all classes of loans may include lowering the interest rate, forgiving a portion of principal, extending the loan term, lowering scheduled payments for a specified period of time, principal forgiveness, or capitalizing past due amounts. A rate increase can be a concession if the increased rate is lower than a market rate for debt with risk similar to that of the restructured loan. TDRs for commercial loans and leases may also involve creating a multiple note structure, accepting non-cash assets, accepting an equity interest, or receiving a performance-based fee. In some cases, a TDR may involve multiple concessions. The financial effects of TDRs for all loan classes may include lower income (either due to a lower interest rate or a delay in the timing of cash flows), larger loan loss provisions, and accelerated charge-offs if the modification renders the loan collateral-dependent. In some cases, interest income throughout the term of the loan may increase if, for example, the loan is extended or the interest rate is increased as a result of the restructuring.

Because TDRs are impaired loans, the Company measures impairment by comparing the present value of expected future cash flows, or when appropriate, the fair value of collateral less costs to sell, to the loan's recorded investment. Any excess of recorded investment over the present value of expected future cash flows or collateral value is in the ALLL. Any portion of the loan's recorded investment the Company does not expect to collect as a result of the modification is charged off at the time of modification. For Retail TDR accounts where the expected value of cash flows is utilized, any recorded investment in excess of the present value of expected cash flows is recognized by creating or increasing the ALLL. For Retail TDR accounts assessed based on the fair value of collateral, any portion of the loan's recorded investment in excess of the collateral value is charged off at the time of modification or at the time of subsequent and regularly recurring valuations.

Commercial TDRs were $135 million at September 30, 2016 and $155 million at December 31, 2015. Retail TDRs totaled $812 million at September 30, 2016 and $1.2 billion at December 31, 2015, down primarily due to the previously mentioned TDR sale. Commitments to lend additional funds to debtors owing receivables which were TDRs were $49 million and $15 million at September 30, 2016 and December 31, 2015, respectively.

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The table below summarizes how loans were modified during the three months ended September 30, 2016, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during 2016 and were paid off in full, charged off, or sold prior to September 30, 2016.

	Primary Modification Types					
	Interest Rate Reduction [1]			Maturity Extension [2]		
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	3	$—	$—	8	$1	$1
Commercial real estate	—	—	—	—	—	—
Total commercial	3	—	—	8	1	1
Residential mortgages	28	3	3	33	6	5
Home equity loans	36	2	2	2	—	1
Home equity lines of credit	20	1	2	56	6	6
Home equity loans serviced by others	7	1	1	—	—	—
Home equity lines of credit serviced by others	2	—	—	1	—	—
Automobile	26	1	1	6	—	—
Student	—	—	—	—	—	—
Credit cards	544	3	3	—	—	—
Other retail	2	—	—	—	—	—
Total retail	665	11	12	98	12	12
Total	668	$11	$12	106	$13	$13

	Primary Modification Types				
	Other [3]				
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification
Commercial	4	$6	$5	$4	$—
Commercial real estate	—	—	—	—	—
Total commercial	4	6	5	4	—
Residential mortgages	55	5	5	—	—
Home equity loans	52	3	3	—	—
Home equity lines of credit	94	8	7	—	1
Home equity loans serviced by others	17	1	1	—	—
Home equity lines of credit serviced by others	6	—	1	—	—
Automobile	264	5	5	—	—
Student	108	2	2	1	—
Credit cards	—	—	—	1	—
Other retail	3	—	—	—	—
Total retail	599	24	24	2	1
Total	603	$30	$29	$6	$1

[1] Includes modifications that consist of multiple concessions, one of which is an interest rate reduction.

[2] Includes modifications that consist of multiple concessions, one of which is a maturity extension (unless one of the other concessions was an interest rate reduction).
[3] Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forgiveness, capitalizing arrearages, and principal forgiveness. Also included are the following: deferrals, trial modifications, certain bankruptcies, loans in forbearance and prepayment plans. Modifications can include the deferral of accrued interest resulting in post modification balances being higher than pre-modification.

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The table below summarizes how loans were modified during the three months ended September 30, 2015, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during 2015 and were paid off in full, charged off, or sold prior to September 30, 2015.

	Primary Modification Types					
	Interest Rate Reduction [1]			Maturity Extension [2]		
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	4	$—	$—	50	$7	$7
Commercial real estate	—	—	—	—	—	—
Total commercial	4	—	—	50	7	7
Residential mortgages	24	4	4	8	1	1
Home equity loans	30	2	2	72	14	14
Home equity lines of credit	1	—	—	2	—	—
Home equity loans serviced by others	2	—	—	—	—	—
Home equity lines of credit serviced by others	—	—	—	—	—	—
Automobile	33	—	1	3	—	—
Student	—	—	—	—	—	—
Credit cards	547	3	3	—	—	—
Other retail	2	—	—	—	—	—
Total retail	639	9	10	85	15	15
Total	643	$9	$10	135	$22	$22

	Primary Modification Types				
	Other [3]				
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification
Commercial	8	$28	$28	$—	$1
Commercial real estate	—	—	—	—	—
Total commercial	8	28	28	—	1
Residential mortgages	78	9	9	—	—
Home equity loans	85	8	7	—	—
Home equity lines of credit	58	4	3	—	—
Home equity loans serviced by others	26	2	1	—	—
Home equity lines of credit serviced by others	12	1	1	—	—
Automobile	182	2	3	—	1
Student	151	2	3	1	—
Credit cards	—	—	—	—	—
Other retail	4	—	—	—	—
Total retail	596	28	27	1	1
Total	604	$56	$55	$1	$2

[1] Includes modifications that consist of multiple concessions, one of which is an interest rate reduction.

(2) Includes modifications that consist of multiple concessions, one of which is a maturity extension (unless one of the other concessions was an interest rate reduction).
(3) Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forgiveness, capitalizing arrearages, and principal forgiveness. Also included are the following: deferrals, trial modifications, certain bankruptcies, loans in forbearance and prepayment plans. Modifications can include the deferral of accrued interest resulting in post modification balances being higher than pre-modification.

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The table below summarizes how loans were modified during the nine months ended September 30, 2016, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during 2016 and were paid off in full, charged off, or sold prior to September 30, 2016.

	Primary Modification Types					
	Interest Rate Reduction [1]			Maturity Extension [2]		
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	11	$1	$1	62	$9	$9
Commercial real estate	—	—	—	—	—	—
Total commercial	11	1	1	62	9	9
Residential mortgages	53	7	7	49	9	8
Home equity loans	65	4	4	39	4	5
Home equity lines of credit	33	2	3	83	9	9
Home equity loans serviced by others	13	1	1	—	—	—
Home equity lines of credit serviced by others	4	—	—	5	1	1
Automobile	77	2	2	14	—	—
Student	—	—	—	—	—	—
Credit cards	1,625	9	9	—	—	—
Other retail	3	—	—	—	—	—
Total retail	1,873	25	26	190	23	23
Total	1,884	$26	$27	252	$32	$32

	Primary Modification Types				
	Other [3]				
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification
Commercial	13	$47	$46	$3	$—
Commercial real estate	—	—	—	—	—
Total commercial	13	47	46	3	—
Residential mortgages	186	20	20	—	—
Home equity loans	233	14	14	(1)	—
Home equity lines of credit	218	16	15	—	1
Home equity loans serviced by others	51	2	2	—	—
Home equity lines of credit serviced by others	19	1	1	—	—
Automobile	803	15	14	—	1
Student	405	8	8	3	—
Credit cards	—	—	—	2	—
Other retail	11	—	—	—	—
Total retail	1,926	76	74	4	2
Total	1,939	$123	$120	$7	$2

[1] Includes modifications that consist of multiple concessions, one of which is an interest rate reduction.

[2] Includes modifications that consist of multiple concessions, one of which is a maturity extension (unless one of the other concessions was an interest rate reduction).
[3] Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forgiveness, capitalizing arrearages, and principal forgiveness. Also included are the following: deferrals, trial modifications, certain bankruptcies, loans in forbearance and prepayment plans. Modifications can include the deferral of accrued interest resulting in post modification balances being higher than pre-modification.

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The table below summarizes how loans were modified during the nine months ended September 30, 2015, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during 2015 and were paid off in full, charged off, or sold prior to September 30, 2015.

	Primary Modification Types					
	Interest Rate Reduction [1]			Maturity Extension [2]		
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	18	$3	$3	114	$19	$19
Commercial real estate	1	—	—	—	—	—
Total commercial	19	3	3	114	19	19
Residential mortgages	77	13	13	27	5	5
Home equity loans	77	4	4	158	30	30
Home equity lines of credit	1	—	—	5	—	—
Home equity loans serviced by others	24	1	1	—	—	—
Home equity lines of credit serviced by others	—	—	—	—	—	—
Automobile	71	1	2	5	—	—
Student	—	—	—	—	—	—
Credit cards	1,781	10	10	—	—	—
Other retail	2	—	—	—	—	—
Total retail	2,033	29	30	195	35	35
Total	2,052	$32	$33	309	$54	$54

	Primary Modification Types				
	Other [3]				
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification
Commercial	12	$30	$30	($1)	$1
Commercial real estate	1	4	4	—	—
Total commercial	13	34	34	(1)	1
Residential mortgages	184	19	19	(1)	—
Home equity loans	379	25	24	—	—
Home equity lines of credit	271	18	15	—	2
Home equity loans serviced by others	97	5	4	—	1
Home equity lines of credit serviced by others	34	2	2	—	—
Automobile	651	10	9	—	2
Student	901	16	17	4	—
Credit cards	—	—	—	1	—
Other retail	19	—	—	—	—
Total retail	2,536	95	90	4	5
Total	2,549	$129	$124	$3	$6

[1] Includes modifications that consist of multiple concessions, one of which is an interest rate reduction.

[2] Includes modifications that consist of multiple concessions, one of which is a maturity extension (unless one of the other concessions was an interest rate reduction).
[3] Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forgiveness, capitalizing arrearages, and principal forgiveness. Also included are the following: deferrals, trial modifications, certain bankruptcies, loans in forbearance and prepayment plans. Modifications can include the deferral of accrued interest resulting in post modification balances being higher than pre-modification.

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The table below summarizes TDRs that defaulted during the three and nine months ended September 30, 2016 and 2015 within 12 months of their modification date. For purposes of this table, a payment default is defined as being 90 days or more past due under the modified terms. Amounts represent the loan's recorded investment at the time of payment default. Loan data includes loans meeting the criteria that were paid off in full, charged off, or sold prior to September 30, 2016 and 2015. If a TDR of any loan type becomes 90 days past due after being modified, the loan is written down to the fair value of collateral less cost to sell. The amount written off is charged to the ALLL.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
(dollars in millions)	Number of Contracts	Balance Defaulted	Number of Contracts	Balance Defaulted	Number of Contracts	Balance Defaulted	Number of Contracts	Balance Defaulted
Commercial	5	$1	7	$1	16	$4	21	$2
Commercial real estate	—	—	—	—	1	—	—	—
Total commercial	5	1	7	1	17	4	21	2
Residential mortgages	57	7	37	7	146	19	120	18
Home equity loans	14	—	47	6	39	3	130	12
Home equity lines of credit	48	4	26	3	93	8	98	6
Home equity loans serviced by others	7	—	11	1	28	1	34	2
Home equity lines of credit serviced by others	3	—	10	1	14	—	17	1
Automobile	43	—	24	—	80	1	66	1
Student	15	—	33	1	46	1	142	3
Credit cards	117	1	102	1	323	2	304	2
Other retail	2	—	1	—	2	—	4	—
Total retail	306	12	291	20	771	35	915	45
Total	311	$13	298	$21	788	$39	936	$47

Concentrations of Credit Risk

Most of the Company's business activity is with customers located in the New England, Mid-Atlantic and Midwest regions. Generally, loans are collateralized by assets including real estate, inventory, accounts receivable, other personal property and investment securities. As of September 30, 2016 and December 31, 2015, the Company had a significant amount of loans collateralized by residential and commercial real estate. There are no significant concentrations within the commercial loan or retail loan portfolios. Exposure to credit losses arising from lending transactions may fluctuate with fair values of collateral supporting loans, which may not perform according to contractual agreements. The Company's policy is to collateralize loans to the extent necessary; however, unsecured loans are also granted on the basis of the financial strength of the applicant and the facts surrounding the transaction. Certain loan products, including residential mortgages, home equity loans and lines of credit, and credit cards, have contractual features that may increase credit exposure to the Company in the event of an increase in interest rates or a decline in housing values. These products include loans that exceed 90% of the value of the underlying collateral (high LTV loans), interest-only and negative amortization residential mortgages, and loans with low introductory rates. Certain loans have more than one of these characteristics.

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The following table presents balances of loans with these characteristics:

	September 30, 2016					
(in millions)	Residential Mortgages	Home Equity Loans and Lines of Credit	Home Equity Products Serviced by Others	Credit Cards	Student	Total
High loan-to-value	$640	$728	$569	$—	$—	$1,937
Interest only/negative amortization	1,494	—	—	—	1	1,495
Low introductory rate	—	—	—	99	—	99
Multiple characteristics and other	4	—	—	—	—	4
Total	$2,138	$728	$569	$99	$1	$3,535

	December 31, 2015					
(in millions)	Residential Mortgages	Home Equity Loans and Lines of Credit	Home Equity Products Serviced by Others	Credit Cards	Student	Total
High loan-to-value	$649	$1,038	$785	$—	$—	$2,472
Interest only/negative amortization	1,110	—	—	—	—	1,110
Low introductory rate	—	3	—	96	—	99
Multiple characteristics and other	14	—	—	—	—	14
Total	$1,773	$1,041	$785	$96	$—	$3,695

NOTE 5 - VARIABLE INTEREST ENTITIES

The Company makes equity investments in various entities that are considered VIEs, as defined by GAAP. These investments primarily include ownership interests in limited partnerships that sponsor affordable housing projects and ownership interests in limited liability companies that sponsor renewable energy projects. A summary of these investments is presented below:

(in millions)	September 30, 2016	December 31, 2015
LIHTC investment included in other assets	$687	$598
LIHTC unfunded commitments included in other liabilities	367	365
Renewable energy investments included in other assets	117	118

Low Income Housing Tax Credit Partnerships

The purpose of the Company's equity investments is to assist in achieving goals of the Community Reinvestment Act and to earn an adequate return of capital. LIHTC partnerships are managed by unrelated general partners that have the power to direct the activities which most significantly affect the performance of the partnerships. The Company is therefore not the primary beneficiary of any LIHTC partnerships. Accordingly, the Company does not consolidate these VIEs and accounts for these investments in other assets on the Consolidated Balance Sheets.

The Company applies the proportional amortization method to account for its LIHTC investments. Under the proportional amortization method, the Company applies a practical expedient and amortizes the initial cost of the investment in proportion to the tax credits received in the current period as compared to the total tax credits expected to be received over the life of the investment. The amortization and tax benefits are included as a component of

income tax expense. The Company reports its equity share of LIHTC partnership gains and losses as an adjustment to noninterest income. The Company reports its commitments to make future investments in other liabilities on the Consolidated Balance Sheets. The tax credits received are reported as a reduction of income tax expense (or increase to income tax benefit) related to these transactions.

The following table presents the other information related to the Company’s affordable housing tax credit investments for the three and nine month periods ended September 30, 2016, and 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Tax credits included in income tax expense	$17	$12	$46	$35
Amortization expense included in income tax expense	14	11	45	35
Other tax benefits included in income tax expense	2	4	15	13

The Company recognized no LIHTC investment impairment losses during the three and nine months ended September 30, 2016 and 2015, respectively.

Renewable Energy Entities

The Company’s investments in renewable energy entities provide benefits from a return generated by government incentives plus other tax attributes that are associated with tax ownership (e.g., tax depreciation). As a tax equity investor, the Company does not have the power to direct the activities which most significantly affect the performance of these entities and therefore is not the primary beneficiary of any renewable energy entities. Accordingly, the Company does not consolidate these VIEs.

NOTE 6 - MORTGAGE BANKING

In its mortgage banking business, the Company sells residential mortgages to government-sponsored entities and other parties, who may issue securities backed by pools of such loans. The Company retains no beneficial interests in these sales, but may retain the servicing rights for the loans sold. The Company is obligated to subsequently repurchase a loan if the purchaser discovers a standard representation or warranty violation such as noncompliance with eligibility requirements, customer fraud, or servicing violations. This primarily occurs during a loan file review.

The Company received proceeds from the sale of residential mortgages held for sale of $753 million and $725 million for the three months ended September 30, 2016 and 2015, respectively, and $1.8 billion and $1.5 billion for the nine months ended September 30, 2016 and 2015, respectively.

The Company recognized gains on sales of residential mortgages held for sale of $26 million and $11 million for the three months ended September 30, 2016 and 2015, respectively, and $56 million and $43 million for the nine months ended September 30, 2016 and 2015, respectively.

Pursuant to the standard representations and warranties obligations discussed above, the Company repurchased residential mortgages totaling $2 million for the three months ended September 30, 2016 and 2015 and $6 million and $9 million for the nine months ended September 30, 2016 and 2015, respectively.

Mortgage servicing fees, a component of mortgage banking fees, were $12 million and $13 million for the three months ended September 30, 2016 and 2015, respectively, and $38 million and $41 million for the nine months ended September 30, 2016 and 2015, respectively.

The Company recorded valuation charge-offs of $2 million and $1 million for its MSRs for the three months ended September 30, 2016 and 2015, respectively, and valuation charge-offs of $6 million and recoveries of $6 million for its MSRs for the nine months ended September 30, 2016 and 2015, respectively.

The fair value of MSRs is estimated using a valuation model that calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, contractual servicing fee income, servicing costs, default rates, ancillary income, and other economic factors, which are determined based on current market conditions. The valuation model uses a static discounted cash flow methodology incorporating current market interest rates. A static model does not attempt to forecast or predict the future direction of interest rates; rather it estimates the amount and timing of future servicing cash flows using current market interest rates. The current mortgage interest rate influences the expected prepayment rate and therefore, the

length of the cash flows associated with the servicing asset, while the discount rate determines the present value of those cash flows. Expected mortgage loan prepayment assumptions are obtained using the QRM Multi Component prepayment model. The Company periodically obtains third-party valuations of its MSRs to assess the reasonableness of the fair value calculated by the valuation model.

MSRs are presented in other assets on the Consolidated Balance Sheets. Changes related to MSRs are presented below:

	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
MSRs:				
Balance as of beginning of period	$166	$177	$173	$184
Amount capitalized	10	7	20	20
Amortization	(9)	(8)	(26)	(28)
Carrying amount before valuation allowance	167	176	167	176
Valuation allowance for servicing assets:				
Balance as of beginning of period	13	11	9	18
Valuation charge-offs (recoveries)	2	1	6	(6)
Balance at end of period	15	12	15	12
Net carrying value of MSRs	$152	$164	$152	$164

The key economic assumptions used to estimate the value of MSRs are presented in the following table:

	September 30, 2016			December 31, 2015		
(dollars in millions)	Weighted Average	Range		Weighted Average	Range	
Fair value	$163	Min	Max	$178	Min	Max
Weighted average life (in years)	4.8	2.5	5.2	5.4	2.8	6.2
Weighted average constant prepayment rate	14.0%	13.6%	24.8%	11.6%	10.7%	22.2%
Weighted average discount rate	9.7%	9.1%	12.1%	9.7%	9.1%	12.1%

The key economic assumptions used in estimating the fair value of MSRs capitalized during the period are presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Weighted average life (in years)	5.7	6.4	5.9	5.7
Weighted average constant prepayment rate	12.3%	10.1%	11.7%	10.8%
Weighted average discount rate	9.8%	9.7%	9.8%	9.7%

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The sensitivity analysis below presents the impact to current fair value of an immediate 50 basis points and 100 basis points adverse change in the key economic assumptions and presents the decline in fair value that would occur if the adverse change were realized. These sensitivities are hypothetical, with the effect of a variation in a particular assumption on the fair value of the mortgage servicing rights calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (e.g., changes in interest rates, which drive changes in prepayment rates, could result in changes in the discount rates), which may amplify or counteract the sensitivities. The primary risk inherent in the Company's MSRs is an increase in prepayments of the underlying mortgage loans serviced, which is dependent upon market movements of interest rates.

(in millions)	September 30, 2016	December 31, 2015
Prepayment rate:		
Decline in fair value from a 50 basis point decrease in interest rates	$5	$5
Decline in fair value from a 100 basis point decrease in interest rates	$15	$11
Weighted average discount rate:		
Decline in fair value from a 50 basis point increase in weighted average discount rate	$3	$3
Decline in fair value from a 100 basis point increase in weighted average discount rate	$5	$6

NOTE 7 - BORROWED FUNDS

A summary of the Company's short-term borrowed funds is presented below:

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

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.

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A summary of the Company's 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 [(1)]	$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 [(2)]	250	250
4.023% fixed rate subordinated debt, due 2024 [(3)]	42	331
4.082% fixed rate subordinated debt, due 2025 [(4)]	—	331
4.350% fixed rate subordinated debt, due 2025 [(5)]	249	250
4.300% fixed rate subordinated debt, due 2025 [(6)]	749	750
2.375% fixed rate senior unsecured debt, due 2021 [(7)]	348	—
Banking Subsidiaries:		
1.600% senior unsecured notes, due 2017 [(8)] [(9)]	750	749
2.300% senior unsecured notes, due 2018 [(8)] [(10)]	752	747
2.450% senior unsecured notes, due 2019 [(8)] [(11)]	761	752
2.500% senior unsecured notes, due 2019 [(8)][(12)]	749	—
2.550% senior unsecured notes, due 2021[(8)][(13)]	998	—
Federal Home Loan advances due through 2033	5,564	5,018
Other	10	25
Total long-term borrowed funds	$11,902	$9,886

[(1)] These balances are comprised of: principal balances of $350 million at September 30, 2016 and December 31, 2015, as well as the impact of ($3) million of unamortized deferred issuance costs and discount at September 30, 2016.
[(2)] Prior to January 1, 2016, interest was payable at a fixed rate per annum of 4.153%.
[(3)] These balances are comprised of: principal balance of $42 million and $333 million at September 30, 2016 and December 31, 2015, respectively, as well as the impact from interest rate swaps of zero and ($2) million at September 30, 2016 and December 31, 2015, respectively. See Note 11 "Derivatives" for further information. In addition, the Company repurchased $125 million and $166 million of these securities on March 7, 2016 and July 28, 2016, respectively.
[(4)] These balances are comprised of: principal balance of zero and $334 million at September 30, 2016 and December 31, 2015, respectively; impact from interest rate swaps of zero and ($3) million at September 30, 2016 and December 31, 2015, respectively. See Note 11 "Derivatives" for further information. On July 28, 2016, the Company repurchased $334 million of these securities.
[(5)] These balances are comprised of: principal balances of $250 million at September 30, 2016 and December 31, 2015, as well as the impact of ($1) million of unamortized deferred issuance costs and discount at September 30, 2016.
[(6)] These balances are comprised of: principal balances of $750 million at September 30, 2016 and December 31, 2015, as well as the impact of ($1) million of unamortized deferred issuance costs and discount at September 30, 2016.
[(7)] This balance is comprised of: principal balance of $350 million at September 30, 2016, as well as the impact of ($2) million of unamortized deferred issuance costs and discount at September 30, 2016.
[(8)] These securities were offered under CBNA's Global Bank Note Program dated December 1, 2014.
[(9)] These balances are comprised of: principal balances of $750 million at September 30, 2016 and December 31, 2015; impact from interest rate swaps of $1 million and ($1) million at September 30, 2016 and December 31, 2015, respectively; and ($1) million of unamortized deferred issuance costs and discount at September 30, 2016. See Note

11 “Derivatives” for further information.
(10) These balances are comprised of: principal balances of $750 million at September 30, 2016 and December 31, 2015; impact from interest rate swaps of $4 million and ($3) million at September 30, 2016 and December 31, 2015, respectively; and ($2) million of unamortized deferred issuance costs and discount at September 30, 2016. See Note 11 “Derivatives” for further information.
(11) These balances are comprised of: principal balances of $750 million at September 30, 2016 and December 31, 2015; impact from interest rate swaps of $14 million and $2 million at September 30, 2016 and December 31, 2015, respectively; and ($3) million of unamortized deferred issuance costs and discount at September 30, 2016. See Note 11 “Derivatives” for further information.
(12) This balance is comprised of: principal balance of $750 million at September 30, 2016; impact from interest rate swaps of $1 million and ($2) million of unamortized deferred issuance costs and discount at September 30, 2016. See Note 11 “Derivatives” for further information.
(13) This balance is comprised of: principal balance of $1.0 billion at September 30, 2016; impact from interest rate swaps of $2 million and ($4) million of unamortized deferred issuance costs and discount at September 30, 2016. See Note 11 “Derivatives” for further information.

On July 28, 2016, the Company 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 its subordinated debt. Specifically, the Company retired $334 million of 4.082% subordinated notes due 2025 and $166 million of 4.023% subordinated notes due 2024.
Advances, lines of credit, and letters of credit from the FHLB are collateralized by pledged mortgages and pledged securities at least sufficient to satisfy the collateral maintenance level established by the FHLB. The utilized borrowing capacity for FHLB advances and letters of credit was $12.4 billion and $11.3 billion at September 30, 2016 and December 31, 2015, respectively. The Company’s available FHLB borrowing capacity was $3.1 billion and $4.1 billion at September 30, 2016 and

December 31, 2015, respectively. The Company can also borrow from the FRB discount window to meet short-term liquidity requirements. Collateral, such as investment securities and loans, was pledged to provide borrowing capacity at the FRB. At September 30, 2016, the Company's unused secured borrowing capacity was approximately $34.3 billion, which includes unencumbered securities, FHLB borrowing capacity, and FRB discount window capacity.
A summary of maturities for the Company's long-term borrowed funds at September 30, 2016 is presented below:

Year (in millions)	CFG Parent Company	Banking Subsidiaries	Consolidated
2017 or on demand	$—	$4,251	$4,251
2018	—	2,807	2,807
2019	—	1,511	1,511
2020	—	2	2
2021	348	1,002	1,350
2022 and thereafter	1,970	11	1,981
Total	$2,318	$9,584	$11,902

NOTE 8 - STOCKHOLDERS' EQUITY

Preferred Stock

The Company had 100,000,000 shares authorized and 250,000 shares outstanding of $25.00 par value undesignated preferred stock as of September 30, 2016 and December 31, 2015, respectively. The Board of Directors or any authorized committee thereof are authorized to provide for the issuance of these shares in one or more series, and by filing a certificate pursuant to applicable law of the State of Delaware, to establish or change from time to time the number of shares of each such series, and to fix the designations, powers, including voting powers, full or limited, or no voting powers, preferences and the relative, participating, optional or other special rights of the shares of each series and any qualifications, limitations and restrictions thereof.
On April 6, 2015, the Company issued $250 million, or 250,000 shares, of 5.500% fixed-to-floating rate non-cumulative perpetual Series A Preferred Stock, par value of $25.00 per share with a liquidation preference $1,000 per share (the "Series A Preferred Stock") to the initial purchasers in reliance on the exemption from registration provided by Section (4)(a)(2) of the Securities Act of 1933, as amended, for resale pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. As a result of this issuance, the Company received net proceeds of $247 million after underwriting discount.
The Series A Preferred Stock has no stated maturity and is not subject to any sinking fund or other obligation of the Company. Holders of the Series A Preferred Stock will be entitled to receive dividend payments when, and if, declared by the Company's Board of Directors or a duly authorized committee thereof. Any such dividends will be payable on a semi-annual basis at an annual rate equal to 5.500%. On April 6, 2020, the Series A Preferred Stock converts to a quarterly floating-rate basis equal to three-month U.S. dollar LIBOR on the related dividend determination date plus 3.960%.
Citizens may redeem the Series A Preferred Stock, in whole or in part on any dividend payment date, on or after April 6, 2020 or, in whole but not in part, at any time within 90 days following a regulatory capital treatment event at a redemption price equal to $1,000 per share, plus any declared and unpaid dividends, without accumulation of any undeclared dividends. Citizens may not redeem shares of the Series A Preferred Stock without obtaining the prior approval of the FRBG if then required under applicable capital guidelines.
Shares of the Series A Preferred Stock have priority over the Company's common stock with regard to the payment of dividends and as such, the Company may not pay dividends on or repurchase, redeem, or otherwise acquire for consideration shares of its common stock unless dividends for the latest completed dividend period for the Series A Preferred Stock have been declared and paid (or declared and sufficient funds have been set aside to make payment). Except in certain limited circumstances, the Series A Preferred Stock does not have any voting rights.

Treasury Stock

During the three months ended September 30, 2016, as part of its 2016 CCAR plan, the Company repurchased $250 million, or 11,062,192 common shares at an average price of $22.60. The repurchased shares are held in treasury stock. During the year ended December 31, 2015, the Company recorded an additional 876,087 shares of treasury stock associated with share-based compensation plan activity for a total cost of $22 million at a weighted-average price per share of $25.50.

On August 3, 2015, the Company used the net proceeds of its public offering of $250 million aggregate principal amount 4.350% Subordinated Notes due 2025 issued on July 31, 2015, to repurchase 9,615,384 shares of its outstanding common stock at a public offering price of $26.00 per share. The repurchased shares are held in treasury.

On April 7, 2015, the Company used the net proceeds of the Series A Preferred Stock offering to repurchase 10,473,397 shares of its common stock at a total cost of approximately $250 million and a price per share of $23.87, which equaled the volume-weighted average price of the Company’s common stock for all traded volume over the five trading days preceding the repurchase agreement date of April 1, 2015. The repurchased shares are held in treasury.

NOTE 9 - EMPLOYEE BENEFITS

The Company maintains a non-contributory pension plan (the “Plan” or “qualified plan”) that was closed to new hires and re-hires effective January 1, 2009, and frozen to all participants effective December 31, 2012. Benefits under the Plan are based on employees’ years of service and highest five-year average of eligible compensation. The Plan is funded on a current basis, in compliance with the requirements of ERISA. On September 7, 2016, the Company made a contribution of $75 million to the qualified plan. The Company also provides an unfunded, non-qualified supplemental retirement plan (the “non-qualified plan”), which was closed and frozen effective December 12, 2012.

The following table presents the components of net periodic (income) cost for the Company’s qualified and non-qualified plans:

	Nine Months Ended September 30,					
	Qualified Plan		Non-Qualified Plan		Total	
(in millions)	2016	2015	2016	2015	2016	2015
Service cost	$2	$2	$—	$—	$2	$2
Interest cost	33	33	3	3	36	36
Expected return on plan assets	(50)	(55)	—	—	(50)	(55)
Amortization of actuarial loss	11	10	1	2	12	12
Net periodic pension (income) cost	($4)	($10)	$4	$5	$—	($5)

NOTE 10 - INCOME TAXES

Income Tax Expense

Income tax expense was $130 million and $115 million for the three months ended September 30, 2016 and 2015, respectively, resulting in effective tax rates of 30.5% and 34.1%, respectively. Income tax expense was $357 million and $313 million for the nine months ended September 30, 2016 and 2015, respectively, resulting in effective tax rates of 31.9% and 33.5%, respectively. For the nine months ended September 30, 2016 and 2015, the effective tax rate compared favorably to the statutory rate of 35% primarily as a result of the permanent benefits from tax credits and tax-exempt income.

Deferred Tax Liability

At September 30, 2016, the Company reported a net deferred tax liability of $994 million, compared to $730 million as of December 31, 2015. The increase in the net deferred tax liability is primarily attributable to the tax effect of net unrealized gains on securities and derivatives arising during the period and the tax effect of current year timing adjustments.

NOTE 11 - DERIVATIVES

In the normal course of business, the Company enters into a variety of derivative transactions in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates and foreign currency exchange rates. The Company does not use derivatives for speculative purposes.

The Company's derivative instruments are recognized on the Consolidated Balance Sheets at fair value. Information regarding the valuation methodology and inputs used to estimate the fair value of the Company's derivative instruments is described in Note 14 "Fair Value Measurements."

The following table presents derivative instruments included on the Consolidated Balance Sheets in derivative assets and derivative liabilities:

(in millions)	September 30, 2016			December 31, 2015		
	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. Notional amounts are 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 the Company to settle positive and negative positions.

[3] The Company also offsets assets and liabilities associated with repurchase agreements on the Consolidated Balance Sheets. See Note 2 "Securities" for further information.

The Company's derivative transactions are internally divided into three sub-groups: institutional, customer and residential loan.

Institutional derivatives

The institutional derivatives portfolio primarily consists of interest rate swap agreements that are used to hedge the interest rate risk associated with the Company's loans and financing liabilities (i.e., borrowed funds, deposits, etc.). The goal of the Company's interest rate hedging activities is to manage interest rate sensitivity so that movements in interest rates do not significantly adversely affect net interest income.

The Company enters into certain interest rate swap agreements to hedge the risk associated with floating rate loans. By entering into pay-floating/receive-fixed interest rate swaps, the Company is able to minimize the variability in the cash flows of these assets due to changes in interest rates. The Company has outstanding interest rate swap agreements designed to hedge a portion of the Company's borrowed funds and deposit liabilities. By entering into a pay-fixed/receive-floating interest rate swap, a portion of these liabilities has been effectively converted to a fixed-rate liability for the term of the interest rate swap agreement.

The Company also uses receive-fixed/pay-floating interest rate swaps to manage the interest rate exposure on its medium term borrowings.

Customer derivatives

The customer derivatives portfolio consists of interest rate swap agreements and option contracts that are transacted to meet the financing needs of the Company's customers. Swap agreements and interest rate option agreements are transacted to effectively minimize the Company's market risk associated with the customer derivative products. The customer derivatives portfolio also includes foreign exchange contracts that are entered into on behalf of customers for the purpose of hedging exposure related to cash orders and loans and deposits denominated in foreign currencies. The primary risks associated with these transactions arise from exposure to changes in foreign currency exchange rates and the ability of the counterparties to meet the terms of the contract. To manage this market risk, the Company simultaneously enters into offsetting foreign exchange contracts.

Residential loan derivatives

The Company enters into residential loan commitments that allow residential mortgage customers to lock in the interest rate on a residential mortgage while the loan undergoes the underwriting process. The Company also uses forward sales contracts to protect the value of residential mortgage loans and loan commitments that are being underwritten for future sale to investors in the secondary market.

The Company has certain derivative transactions that are designated as hedging instruments described as follows:

Derivatives designated as hedging instruments

The Company's institutional derivatives portfolio qualifies for hedge accounting treatment. This includes interest rate swaps that are designated in highly effective fair value and cash flow hedging relationships. The Company formally documents at inception all hedging relationships, as well as risk management objectives and strategies for undertaking various accounting hedges. Additionally, the Company uses dollar offset or regression analysis at the hedge's inception, and monthly thereafter to assess whether the derivatives are expected to be, or have been, highly effective in offsetting changes in the hedged item's expected cash flows. The Company discontinues hedge accounting treatment when it is determined that a derivative is not expected to be or has ceased to be effective as a hedge, and then reflects changes in fair value in earnings after termination of the hedge relationship.

Fair value hedges

The Company entered into interest rate swap agreements to manage the interest rate exposure on its medium term borrowings. The change in the value of fair value hedges, to the extent that the hedging relationship is effective, is recorded through earnings and offset against the changes in the fair value of the hedged item.

The following tables present the effect of fair value hedges on net income:

	Amounts Recognized in Other Income for the					
	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
(in millions)	Derivative	Hedged Item	Hedge Ineffectiveness	Derivative	Hedged Item	Hedge Ineffectiveness
Hedges of interest rate risk on borrowings using interest rate swaps	($27)	$25	($2)	$16	($16)	$—

	Amounts Recognized in Other Income for the					
	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
(in millions)	Derivative	Hedged Item	Hedge Ineffectiveness	Derivative	Hedged Item	Hedge Ineffectiveness
Hedges of interest rate risk on borrowings using interest rate swaps	$57	($58)	($1)	$22	($22)	$—

Cash flow hedges

The Company has outstanding interest rate swap agreements designed to hedge a portion of the Company's floating rate assets, and financing liabilities (including its borrowed funds). All of these swaps have been deemed as highly effective cash flow hedges. The effective portion of the hedging gains and losses associated with these hedges are recorded in OCI; the ineffective portion of the hedging gains and losses is recorded in earnings (other income). Hedging gains and losses on derivative contracts reclassified from OCI to current period earnings are included in the line item in the accompanying Consolidated Statements of Operations in which the hedged item is recorded and in the same period that the hedged item affects earnings. During the next 12 months, approximately $4 million of net gain (pre-tax) on derivative instruments included in OCI is expected to be reclassified to net interest income in the Consolidated Statements of Operations.

Hedging gains and losses associated with the Company's cash flow hedges are immediately reclassified from OCI to current period earnings (other income) if it becomes probable that the hedged forecasted transactions will not occur during the originally specified time period.

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The following table presents the effect of cash flow hedges on net income and stockholders' equity:

	Amounts Recognized for the			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Effective portion of (loss) gain recognized in OCI [1]	($1)	$78	$74	$174
Amounts reclassified from OCI to interest income [2]	23	22	66	57
Amounts reclassified from OCI to interest expense [2]	(8)	(15)	(24)	(44)
Amounts reclassified from OCI to other income [3]	(5)	—	(5)	—

[1] The cumulative effective gains and losses on the Company’s cash flow hedging activities are included on the accumulated other comprehensive loss line item on the Consolidated Balance Sheets.
[2] This includes both (a) the amortization of effective gains and losses associated with the Company’s terminated cash flow hedges and (b) the current reporting period’s interest settlements realized on the Company’s active cash flow hedges. Both (a) and (b) were previously included on the accumulated other comprehensive loss line item on the Consolidated Balance Sheets and were subsequently recorded as adjustments to the interest expense of the underlying hedged item.
[3] This includes gains and losses attributable to previously hedged cash flow where the likelihood of occurrence is no longer ‘probable’.

Economic hedges

The Company’s customer derivatives are recorded on the Consolidated Balance Sheets at fair value. These include interest rate and foreign exchange derivative contracts that are transacted to meet the hedging and financing needs of the Company’s customers. Mark-to-market adjustments to the fair value of customer related interest rate contracts are included in other income in the accompanying Consolidated Statements of Operations. Mark-to-market adjustments to the fair value of foreign exchange contracts relating to foreign currency loans are included in interest and fees on loans and leases in the accompanying Consolidated Statements of Operations, while all other foreign currency contract fair value changes are included in foreign exchange and letter of credit fees. In both cases, the mark-to-market gains and losses associated with the customer derivatives are mitigated by the mark-to-market gains and losses on the offsetting interest rate and foreign exchange derivative contracts transacted.

The Company’s residential loan derivatives (including residential loan commitments and forward sales contracts) are recorded on the Consolidated Balance Sheets at fair value. Mark-to-market adjustments to the fair value of residential loan commitments and forward sale contracts are included in noninterest income under mortgage banking fees.

The following table presents the effect of customer derivatives and economic hedges on net income:

	Amounts Recognized in Noninterest Income for the			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Customer derivative contracts				
Customer interest rate contracts [1]	($32)	$85	$63	$149

Customer foreign exchange contracts [1]	17	(4)	45	(21)
Residential loan commitments [2]	1	9	8	2
Economic hedges				
Offsetting derivatives transactions to hedge interest rate risk on customer interest rate contracts [1]	45	(75)	(31)	(126)
Offsetting derivatives transactions to hedge foreign exchange risk on customer foreign exchange contracts [3]	(19)	5	(46)	21
Forward sale contracts [2]	4	(4)	(6)	(2)
Total	$16	$16	$33	$23

[1] Reported in other income on the Consolidated Statements of Operations.
[2] Reported in mortgage banking fees on the Consolidated Statements of Operations.
[3] Reported in foreign exchange and letter of credit fees on the Consolidated Statements of Operations.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

A summary of outstanding off-balance sheet arrangements is presented below:

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

Commitments to Extend Credit

Commitments to extend credit are agreements to lend to customers in accordance with conditions contractually agreed upon in advance. Generally, the commitments have fixed expiration dates or termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being drawn upon, the contract amounts are not necessarily indicative of future cash requirements.

Letters of Credit

Standby letters of credit, both financial and performance, are issued by the Company for its customers. They are used as conditional guarantees of payment to a third party in the event the customer either fails to make specific payments (financial) or fails to complete a specific project (performance). Commercial letters of credit are used to facilitate the import of goods. The commercial letter of credit is used as the method of payment to the Company’s customers’ suppliers. The Company’s exposure to credit loss in the event of counterparty nonperformance in connection with the above instruments is represented by the contractual amount of those instruments, net of the value of collateral held. Standby letters of credit and commercial letters of credit are issued for terms of up to ten years and one year, respectively.

Generally, letters of credit are collateralized by cash, accounts receivable, inventory or investment securities. Credit risk associated with letters of credit is considered in determining the appropriate amounts of reserves for unfunded commitments.

The Company recognizes a liability on the Consolidated Balance Sheets representing its obligation to stand ready to perform over the term of the standby letters of credit in the event that the specified triggering events occur. The liability for these guarantees was $2 million and $3 million at September 30, 2016 and December 31, 2015.

Marketing Rights

During 2003, the Company entered into a 25-year agreement to acquire the naming and marketing rights of a baseball stadium in Pennsylvania. The Company paid $3 million for the nine months ended September 30, 2016 and $3 million for the year ended December 31, 2015, and is obligated to pay $44 million over the remainder of the contract.

Risk Participation Agreements

RPAs are guarantees issued by the Company to other parties for a fee, whereby the Company agrees to participate in the credit risk of a derivative customer of the other party. Under the terms of these agreements, the “participating bank” receives a fee from the “lead bank” in exchange for the guarantee of reimbursement if the customer defaults on an interest rate swap. The interest rate swap is transacted such that any and all exchanges of interest payments (favorable and unfavorable) are made between the lead bank and the customer. In the event that an early termination of the swap occurs and the customer is unable to make a required close out payment, the participating bank assumes that obligation and is required to make this payment.

RPAs where the Company acts as the lead bank are referred to as “participations-out,” in reference to the credit risk associated with the customer derivatives being transferred out of the Company. Participations-out generally occur

concurrently with the sale of new customer derivatives. RPAs where the Company acts as the participating bank are referred to as “participations-in,” in reference to the credit risk associated with the counterparty’s derivatives being assumed by the Company. The Company’s maximum credit exposure is based on its proportionate share of the settlement amount of the referenced interest rate swap. Settlement amounts are generally calculated based on the fair value of the swap plus outstanding accrued interest receivables from the customer. The Company’s estimate of the credit exposure associated with its risk participations-in as was $51 million at September 30, 2016

and $26 million at December 31, 2015. The current amount of credit exposure is spread out over 90 counterparties. RPAs generally have terms ranging from 1-5 years; however, certain outstanding agreements have terms as long as 10 years.

Other Commitments

On January 7, 2016, the Company 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, the Company 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 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. The Company 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.

The Company’s 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. The Company may cancel the agreement at will with payment of a variable termination fee. There is no termination fee after May 2017.

The Company’s commercial loan trading desk provides ongoing secondary market support and liquidity to its clients. Unsettled loan trades (i.e., loan purchase contracts) represent firm commitments to purchase loans from a third party at an agreed-upon price. Principal amounts associated with unsettled commercial loan trades are off-balance sheet commitments until delivery of the loans has taken place. Fair value adjustments associated with each unsettled loan trade are recognized on the Consolidated Balance Sheets and classified within other assets or other liabilities, depending on whether the fair value of the unsettled trade represents an unrealized gain or unrealized loss. The principal balances of unsettled commercial loan trade purchases and sales were $117 million and $129 million, respectively, at September 30, 2016 and $69 million and $75 million at December 31, 2015, respectively. Settled loans purchased by the trading desk are classified as loans held for sale, at fair value on the Consolidated Balance Sheets. Refer to Note 14 “Fair Value Measurements” for further information.

Contingencies

The Company operates in a legal and regulatory environment that exposes it to potentially significant risks. A certain amount of litigation ordinarily results from the nature of the Company’s banking and other businesses. The Company is a party to legal proceedings, including class actions. The Company is also the subject of investigations, reviews, subpoenas, and regulatory matters arising out of its normal business operations, which, in some instances, relate to concerns about fair lending, unfair and/or deceptive practices, mortgage-related issues, and mis-selling of certain products. In addition, the Company engages in discussions with relevant governmental and regulatory authorities on a regular and ongoing basis regarding various issues, and any issues discussed or identified may result in investigatory or other action being taken. Litigation and regulatory matters may result in settlements, damages, fines, penalties, public or private censure, increased costs, required remediation, restrictions on business activities, or other impacts on the Company.

In these disputes and proceedings, the Company contests liability and the amount of damages as appropriate. Given their complex nature, it may be years before some of these matters are finally resolved. Moreover, before liability can be reasonably estimated for a claim, numerous legal and factual issues may need to be examined, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal issues relevant to the proceedings in question.

The Company cannot predict with certainty if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages. The Company recognizes a provision for

a claim when, in the opinion of management after seeking legal advice, it is probable that a liability exists and the amount of loss can be reasonably estimated. In many proceedings, however, it is not possible to determine whether any loss is probable or to estimate the amount of any loss. In each of the matters described below, the Company is unable to estimate the liability in excess of any provision accrued, if any, that might arise or its effects on the Company's Consolidated Statements of Operations or Consolidated Statements of Cash Flows in any particular period. Set out below is a description of significant legal matters involving the Company and its banking subsidiaries. Based on information currently available, the advice of legal counsel and other advisers, and established reserves, management believes that the aggregate liabilities, if any, potentially arising from these proceedings will not have a materially adverse effect on the Company's unaudited interim Consolidated Financial Statements.

Consumer Products Matters

The activities of the Company's banking subsidiaries are subject to extensive laws and regulations concerning unfair or deceptive acts or practices in connection with customer products. Certain of the banking subsidiaries' past practices have not met applicable standards, and they have implemented and are continuing to implement changes to improve and bring their practices in accordance with regulatory guidance. The Company and its banking subsidiaries have actively pursued resolution of the legacy regulatory enforcement matters set forth below.

As previously reported, CBNA is currently subject to a consent order issued in 2013 by the OCC in connection with its findings of deceptive marketing and implementation of some of our checking account and funds transfer products and services. Among other things, the consent order requires us to remedy deficiencies and develop stronger compliance controls, policies and procedures. The Company and its banking subsidiaries are also currently subject to consent orders issued in August 2015 by the CFPB, the OCC and the FDIC in connection with past deposit reconciliation practices, and CBNA is subject to a consent order issued in November 2015 by the OCC in connection with past billing and sales practices pertaining to identity theft and debt cancellation products, under which the applicable regulators have provided non-objections to, among other things, restitution plans for affected customers. All financial penalties associated with these legacy regulatory enforcement matters have been paid, and substantially all remediation related to such legacy matters is expected to be resolved by the end of 2016.

NOTE 13 - RELATED PARTY TRANSACTIONS

The Company, during the ordinary course of business with underwriting terms similar to those offered to the public, has entered into credit facilities with directors and executive officers and their immediate families, as well as their affiliated companies. Extensions of credit amounted to $141 million and $136 million at September 30, 2016 and December 31, 2015, respectively.

NOTE 14 - FAIR VALUE MEASUREMENTS

As discussed in Note 1 "Significant Accounting Policies," to the Company's audited Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2015, the Company measures or monitors many of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for assets and liabilities for which fair value is the required or elected measurement basis of accounting. Additionally, fair value is used on a nonrecurring basis to evaluate assets for impairment or for disclosure purposes. Nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets. The Company also applies the fair value measurement guidance to determine amounts reported for certain disclosures in this Note for assets and liabilities not required to be reported at fair value in the financial statements.

The Company elected to account for residential mortgage loans held for sale and certain commercial and commercial real estate loans held for sale at fair value. Applying fair value accounting to the residential mortgage loans held for sale better aligns the reported results of the economic changes in the value of these loans and their related hedge instruments. Certain commercial and commercial real estate held for sale loans are managed by a commercial secondary loan desk that provides liquidity to banks, finance companies and institutional investors. Applying fair value accounting to this portfolio is appropriate because the Company holds these loans with the intent to sell within short term periods.

Fair Value Option

Residential Mortgage Loans Held for Sale

The fair value of residential mortgage loans held for sale is derived from observable mortgage security prices and includes adjustments for loan servicing value, agency guarantee fees, and other loan level attributes which are mostly observable in the marketplace. Credit risk does not significantly impact the valuation since these loans are sold shortly after origination. Therefore, the Company classifies the residential mortgage loans held for sale in Level 2 of the fair value hierarchy.

The election of the fair value option for financial assets and financial liabilities is optional and irrevocable. The loans accounted for under the fair value option are initially measured at fair value (i.e., acquisition cost) when the financial asset is acquired. Subsequent changes in fair value are recognized in mortgage banking fees on the Consolidated

Statements of Operations. The Company recognized changes in fair value in mortgage banking income of $1 million and $4 million for the three months ended September 30, 2016 and 2015, respectively. The Company recognized changes in fair value in mortgage banking income of $13 million and $2 million for the nine months ended September 30, 2016 and 2015, respectively.
Interest income on residential mortgage loans held for sale is calculated based on the contractual interest rate of the loan and is recorded in interest income.

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Commercial and Commercial Real Estate Loans Held for Sale

The fair value of commercial and commercial real estate loans held for sale is estimated using observable prices of identical or similar loans that transact in the marketplace. In addition, the Company uses external pricing services that provide estimates of fair values based on quotes from various dealers transacting in the market, sector curves or benchmarking techniques. Therefore, the Company classifies the commercial and commercial real estate loans managed by the commercial secondary loan desk in Level 2 of the fair value hierarchy given the observable market inputs.

There were no loans in this portfolio that were 90 days or more past due or nonaccruing as of September 30, 2016 and December 31, 2015. The loans accounted for under the fair value option are initially measured at fair value when the financial asset is recognized. Subsequent changes in fair value are recognized in current earnings. Since all loans in the Company's commercial trading portfolio consist of floating rate obligations, all changes in fair value are due to changes in credit risk. Such credit-related fair value changes may include observed changes in overall credit spreads and/or changes to the creditworthiness of an individual borrower. Unsettled trades within the commercial trading portfolio are not recognized on the Consolidated Balance Sheets and represent off-balance sheet commitments. Refer to Note 12 "Commitments and Contingencies" for further information.

Interest income on commercial and commercial real estate loans held for sale is calculated based on the contractual interest rate of the loan and is recorded in interest income. The Company recognized $1 million in other noninterest income related to its commercial trading portfolio for the three months ended September 30, 2016 and 2015. The Company recognized $3 million in other noninterest income related to its commercial trading portfolio for the nine months ended September 30, 2016 and 2015.

The following table presents the difference between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale measured at fair value:

(in millions)	September 30, 2016			December 31, 2015		
	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
Residential mortgage loans held for sale, at fair value	$456	$441	$15	$268	$263	$5
Commercial and commercial real estate loans held for sale, at fair value	70	70	—	57	57	—

Recurring Fair Value Measurements

The Company utilizes a variety of valuation techniques to measure its assets and liabilities at fair value. The valuation methodologies used for significant assets and liabilities carried on the balance sheet at fair value on a recurring basis are presented below:

Securities available for sale

The fair value of securities classified as AFS is based upon quoted prices, if available. Where observable quoted prices are available in an active market, securities are classified as Level 1 in the fair value hierarchy. Classes of instruments that are valued using this market approach include debt securities issued by the U.S. Treasury. If quoted market prices are not available, the fair value for the security is estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. These instruments are classified as Level 2 because they currently trade in active markets and the inputs to the valuations are observable. The pricing models used to value securities generally begin with market prices (or rates) for similar instruments and make adjustments based on the unique

characteristics of the instrument being valued. These adjustments reflect assumptions made regarding the sensitivity of each security's value to changes in interest rates and prepayment speeds. Classes of instruments that are valued using this market approach include residential and commercial CMOs, specified pool mortgage "pass-through" securities and other debt securities issued by U.S. government-sponsored entities and state and political subdivisions.

A significant majority of the Company's Level 1 and 2 securities are priced using an external pricing service. The Company verifies the accuracy of the pricing provided by its primary outside pricing service on a quarterly basis. This process involves using a secondary external vendor to provide valuations for the Company's securities portfolio for comparison purposes. Any securities with discrepancies beyond a certain threshold are researched and, if necessary, valued by an independent outside broker.

In certain cases where there is limited activity or less transparency around inputs to the valuation model, securities are classified as Level 3.

Residential loans held for sale

See the “Fair Value Option, Residential Mortgage Loans Held for Sale” discussion above.

Commercial loans held for sale

See the “Fair Value Option, Commercial and Commercial Real Estate Loans Held for Sale” discussion above.

Derivatives

The vast majority of the Company’s derivatives portfolio is composed of “plain vanilla” interest rate swaps, which are traded in over-the-counter markets where quoted market prices are not readily available. For these interest rate derivatives, fair value is determined utilizing models that primarily use market observable inputs, such as swap rates and yield curves. The pricing models used to value interest rate swaps calculate the sum of each instrument’s fixed and variable cash flows, which are then discounted using an appropriate yield curve (i.e., LIBOR or Overnight Index Swap curve) to arrive at the fair value of each swap. The pricing models do not contain a high level of subjectivity as the methodologies used do not require significant judgment. The Company also considers certain adjustments to the modeled price that market participants would make when pricing each instrument, including a credit valuation adjustment that reflects the credit quality of the swap counterparty. The Company incorporates the effect of exposure to a particular counterparty’s credit by netting its derivative contracts with the collateral available and calculating a credit valuation adjustment on the basis of the net position with the counterparty where permitted. The determination of this adjustment requires judgment on behalf of Company management; however, the total amount of this portfolio-level adjustment is not material to the total fair value of the interest rate swaps in their entirety. Therefore, interest rate swaps are classified as Level 2 in the valuation hierarchy.

The Company’s other derivatives include foreign exchange contracts. Fair value of foreign exchange derivatives uses the mid-point of daily quoted currency spot prices. A valuation model estimates fair value based on the quoted spot rates together with interest rate yield curves and forward currency rates. Since all of these inputs are observable in the market, foreign exchange derivatives are classified as Level 2 in the fair value hierarchy.

Money Market Mutual Fund

Fair value is determined based upon unadjusted quoted market prices and is considered a Level 1 fair value measurement.

Other investments

The fair values of the Company’s other investments are based on security prices in markets that are not active; therefore, these investments are classified as Level 2 in the fair value hierarchy.

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The following table presents assets and liabilities measured at fair value, including gross derivative assets and liabilities on a recurring basis at September 30, 2016:

(in millions)	Total	Level 1	Level 2	Level 3
Securities available for sale:				
Mortgage-backed securities	$19,385	$—	$19,385	$—
State and political subdivisions	8	—	8	—
Equity securities	17	—	17	—
U.S. Treasury and other	15	15	—	—
Total securities available for sale	19,425	15	19,410	—
Loans held for sale, at fair value:				
Residential loans held for sale	456	—	456	—
Commercial loans held for sale	70	—	70	—
Total loans held for sale, at fair value	526	—	526	—
Derivative assets:				
Interest rate swaps	1,056	—	1,056	—
Foreign exchange contracts	118	—	118	—
Other contracts	18	—	18	—
Total derivative assets	1,192	—	1,192	—
Other investment securities, at fair value:				
Money market mutual fund	108	108	—	—
Other investments	5	—	5	—
Total other investment securities, at fair value	113	108	5	—
Total assets	$21,256	$123	$21,133	$—
Derivative liabilities:				
Interest rate swaps	$854	$—	$854	$—
Foreign exchange contracts	113	—	113	—
Other contracts	9	—	9	—
Total derivative liabilities	976	—	976	—
Total liabilities	$976	$—	$976	$—

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The following table presents assets and liabilities measured at fair value including gross derivative assets and liabilities on a recurring basis at December 31, 2015:

(in millions)	Total	Level 1	Level 2	Level 3
Securities available for sale:				
Mortgage-backed securities	$17,842	$—	$17,842	$—
State and political subdivisions	9	—	9	—
Equity securities	17	—	17	—
U.S. Treasury	16	15	1	—
Total securities available for sale	17,884	15	17,869	—
Loans held for sale, at fair value:				
Residential loans held for sale	268	—	268	—
Commercial loans held for sale	57	—	57	—
Total loans held for sale, at fair value	325	—	325	—
Derivative assets:				
Interest rate swaps	636	—	636	—
Foreign exchange contracts	163	—	163	—
Other contracts	8	—	8	—
Total derivative assets	807	—	807	—
Other investment securities, at fair value:				
Money market mutual fund	65	65	—	—
Other investments	5	—	5	—
Total other investment securities, at fair value	70	65	5	—
Total assets	$19,086	$80	$19,006	$—
Derivative liabilities:				
Interest rate swaps	$505	$—	$505	$—
Foreign exchange contracts	156	—	156	—
Other contracts	5	—	5	—
Total derivative liabilities	666	—	666	—
Total liabilities	$666	$—	$666	$—

The changes in Level 3 assets measured at fair value on a recurring basis are presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Beginning of period balance	$—	$1	$—	$5
Purchases, issuances, sales and settlements:				
Purchases	—	—	—	1
Sales	—	—	—	—
Settlements	—	—	—	—
Net (losses) gains	—	(1)	—	(1)
Transfers from Level 3 to Level 2	—	—	—	(5)
End of period balance	$—	$—	$—	$—
	$—	$—	$—	$—

Net unrealized gain (loss) included in net income for the year relating to assets held at period end

In March 2015, the Company transferred $5 million of securities from Level 3 to Level 2. The fair values of these securities are based on security prices in the market that are not active.

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Nonrecurring Fair Value Measurements
The following valuation techniques are utilized to measure significant assets for which the Company utilizes fair value on a nonrecurring basis:
Impaired Loans
The carrying amount of collateral-dependent impaired loans is compared to the appraised value of the collateral less costs to dispose and is classified as Level 2. Any excess of carrying amount over the appraised value is charged to the ALLL.
Mortgage Servicing Rights
MSRs do not trade in an active market with readily observable prices. MSRs are classified as Level 3 since the valuation methodology utilizes significant unobservable inputs. The fair value was calculated using a discounted cash flow model. Refer to Note 1 “Significant Accounting Policies” to the Company’s audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2015 and Note 6 “Mortgage Banking” for more information.
Foreclosed assets
Foreclosed assets consist primarily of residential properties. Foreclosed assets are carried at the lower of carrying value or fair value less costs to dispose. Fair value is based upon independent market prices or appraised values of the collateral and is classified as Level 2.
The following table presents gains (losses) on assets and liabilities measured at fair value on a nonrecurring basis and recorded in earnings:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Impaired collateral-dependent loans	($18)	($9)	($29)	($22)
MSRs	(2)	(1)	(6)	6
Foreclosed assets	—	—	(2)	(2)

The following table presents assets and liabilities measured at fair value on a nonrecurring basis:

	September 30, 2016				December 31, 2015			
(in millions)	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Impaired collateral-dependent loans	$353	$—	$353	$—	$60	$—	$60	$—
MSRs	163	—	—	163	178	—	—	178
Foreclosed assets	47	—	47	—	42	—	42	—

Disclosures about Fair Value of Financial Instruments
Following is a description of valuation methodologies used to estimate the fair value of financial instruments for disclosure purposes (these instruments are not recorded in the financial statements at fair value):
Securities held to maturity
The fair value of securities classified as HTM is estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flow. The pricing models used to value these securities generally begin with market prices (or rates) for similar instruments and make adjustments based on the unique characteristics of the instrument being valued. These adjustments reflect assumptions made regarding the sensitivity of each security’s value to changes in interest rates and prepayment speeds.
Other investment securities, at cost

The fair value of other investment securities, at cost, such as FHLB stock and FRB stock, is assumed to approximate the cost basis of the securities. As a member of the FHLB and FRB, the Company is required to hold FHLB and FRB stock. The stock can be sold only to the FHLB and FRB upon termination of membership, or redeemed at the FHLB's or FRB's sole discretion.

Loans and leases

For loans and leases not recorded at fair value on a recurring basis that are not accounted for as collateral-dependent impaired loans, fair value is estimated by using one of two methods: a discounted cash flow method or a securitization method. The discounted cash flow method involves discounting the expected future cash flows using current rates which a market participant would likely use to value similar pools of loans. Inputs used in this method include observable information such as contractual cash flows (net of servicing cost) and unobservable information such as estimated prepayment speeds, credit loss exposures, and discount rates. The securitization method involves utilizing market securitization data to value the assets as if a securitization transaction had been executed. Inputs used include observable market-based MBS data and pricing adjustments based on unobservable data reflecting the liquidity risk, credit loss exposure and other characteristics of the underlying loans. The internal risk-weighted balances of loans are grouped by product type for purposes of these estimated valuations. For nonaccruing loans, fair value is estimated by discounting management’s estimate of future cash flows with a discount rate commensurate with the risk associated with such assets. Fair value of collateral-dependent loans is primarily based on the appraised value of the collateral.

Other loans held for sale

Balances represent loans that were transferred to other loans held for sale and are reported at the lower of cost or fair value.

Deposits

The fair value of demand deposits, checking with interest accounts, regular savings and money market accounts is the amount payable on demand at the balance sheet date. The fair value of term deposits is estimated by discounting the expected future cash flows using rates currently offered for deposits of similar remaining maturities.

Federal funds purchased and securities sold under agreements to repurchase, other short-term borrowed funds, and long-term borrowed funds

Rates currently available to the Company for debt of similar terms and remaining maturities are used to discount the expected cash flows of existing debt.

The following table presents the fair value for financial instruments not recorded at fair value in the unaudited interim Consolidated Financial Statements. The carrying amounts are recorded in the Consolidated Balance Sheets under the indicated captions:

	September 30, 2016							
	Total		Level 1		Level 2		Level 3	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:								
Securities held to maturity	$5,289	$5,431	$—	$—	$5,289	$5,431	$—	$—
Other investment securities, at cost	877	877	—	—	877	877	—	—
Other loans held for sale	—	—	—	—	—	—	—	—
Loans and leases	105,467	105,637	—	—	353	353	105,114	105,284
Financial Liabilities:								
Deposits	108,327	108,329	—	—	108,327	108,329	—	—
Federal funds purchased and securities sold under agreements to repurchase	900	900	—	—	900	900	—	—
Other short-term borrowed funds	2,512	2,512	—	—	2,512	2,512	—	—
Long-term borrowed funds	11,902	12,127	—	—	11,902	12,127	—	—

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(in millions)	December 31, 2015							
	Total		Level 1		Level 2		Level 3	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:								
Securities held to maturity	$5,258	$5,297	$—	$—	$5,258	$5,297	$—	$—
Other investment securities, at cost	863	863	—	—	863	863	—	—
Other loans held for sale	40	40	—	—	—	—	40	40
Loans and leases	99,042	99,026	—	—	60	60	98,982	98,966
Financial Liabilities:								
Deposits	102,539	102,528	—	—	102,539	102,528	—	—
Federal funds purchased and securities sold under agreements to repurchase	802	802	—	—	802	802	—	—
Other short-term borrowed funds	2,630	2,630	—	—	2,630	2,630	—	—
Long-term borrowed funds	9,886	9,837	—	—	9,886	9,837	—	—

NOTE 15 - REGULATORY MATTERS

As a BHC, the Company is subject to regulation and supervision by the FRB. The primary subsidiaries of the Company are its two insured depository institutions CBNA, a national banking association whose primary federal regulator is the OCC, and CBPA, a Pennsylvania-chartered savings bank regulated by the Department of Banking of the Commonwealth of Pennsylvania and supervised by the FDIC as its primary federal regulator. Under the Basel III capital framework that took effect on January 1, 2015, the Company and its banking subsidiaries must meet specific capital requirements. Basel III requirements are expressed in terms of the following ratios: (1) common equity tier 1 capital (common equity tier 1 capital/risk-weighted on- and off-balance sheet assets); (2) tier 1 capital (tier 1 capital/risk-weighted on- and off-balance sheet assets); (3) total capital (total capital/risk-weighted on- and off-balance sheet assets); and (4) tier 1 leverage (tier 1 capital/adjusted average quarterly assets). To meet the regulatory capital requirements, the Company and its banking subsidiaries must maintain minimum regulatory levels for each ratio. In addition, the Company must not be subject to a written agreement, order or capital directive with any of its regulators. Failure to meet minimum capital requirements can result in the initiation of certain actions that, if undertaken, could have a material effect on the Company’s Consolidated Financial Statements.

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The following table presents the Company's capital and capital ratios under Basel III Transitional rules as of September 30, 2016 and December 31, 2015. Certain Basel III requirements are subject to phase-in through 2019, and these phase-in rules are used in this report of actual regulatory ratios. In addition, the Company has declared itself as an "AOCI opt-out" institution, which means that the Company is not required to change its methodology for recognizing in regulatory capital, only a subset of unrealized gains and losses that are classified as AOCI. As an AOCI opt-out institution, the Company is not required to recognize within regulatory capital the impacts of net unrealized gains and losses on securities AFS, accumulated net gains and losses on cash-flow hedges included in AOCI, net gains and losses on certain defined benefit pension plan assets, and net unrealized gains and losses on securities held to maturity included in AOCI.

	Transitional Basel III								
						FDIA Requirements			
	Actual			Minimum Capital Adequacy		Classification as Well-capitalized			
(dollars in millions)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of September 30, 2016									
Common equity tier 1 capital [1] [5]	$13,763	11.3	%	$6,233	5.125	%	$7,905	6.5	%
Tier 1 capital [2] [5]	14,010	11.5		8,057	6.625		9,729	8.0	
Total capital [3][5]	17,290	14.2		10,489	8.625		12,161	10.0	
Tier 1 leverage [4]	14,010	10.1		5,537	4.000		6,921	5.0	
As of December 31, 2015									
Common equity tier 1 capital [1]	$13,389	11.7	%	$5,134	4.5	%	$7,415	6.5	%
Tier 1 capital [2]	13,636	12.0		6,845	6.0		9,127	8.0	
Total capital [3]	17,505	15.3		9,127	8.0		11,408	10.0	
Tier 1 leverage [4]	13,636	10.5		5,218	4.0		6,523	5.0	

[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.
[5] "Minimum Capital ratio" for 2016 includes capital conservation buffer of 0.625%.

Under the Capital Plan Rule, the Company may only make capital distributions, including payment of dividends, in accordance with a capital plan that has been reviewed by the Federal Reserve and to which the Federal Reserve has not objected.

In April 2016, the Company submitted its 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 the Company's 2016 Capital Plan or to its proposed capital actions in the period beginning July 1, 2016 and ending June 30, 2017. The Company's 2016 Capital Plan includes proposed 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.

For more information on share repurchases during the three months ended September 30, 2016, see Part II, Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds, included in this report.

All proposed distributions are subject to consideration and approval by CFG's Board of Directors prior to execution. The timing and exact amount of dividends and share repurchases will depend on various factors, including CFG's capital position, financial performance and market conditions.

In the three and nine months ended September 30, 2016, the Company paid total common dividends of approximately $62 million and $179 million, respectively. The Company also declared a preferred dividend of $7 million during the first and the third quarter of 2016, or a total of $14 million for the nine months ended September 30, 2016. Additionally, during the three months ended September 30, 2016, the Company repurchased 11.1 million shares of common stock, which reduced shareholders' equity by $250 million.

In accordance with federal and state banking regulations, dividends paid by the Company's banking subsidiaries to the Company itself are generally limited to the retained earnings of the respective banking subsidiaries unless specifically approved by the appropriate bank regulator.

On March 13, 2014, the OCC determined that CBNA no longer meets the condition to own a financial subsidiary — namely that CBNA must be both well capitalized and well managed. A financial subsidiary is permitted to engage in a broader range of activities, similar to those of a financial holding company, than those permissible for a national bank itself. CBNA has two financial subsidiaries, Citizens Securities, Inc., a registered broker-dealer, and RBS Citizens Insurance Agency, Inc., a dormant

entity. CBNA has entered into an agreement with the OCC pursuant to which the Company has developed and submitted to the OCC a remediation plan, that sets forth the specific actions it will take to bring itself back into compliance with the conditions to own a financial subsidiary.

NOTE 16 - EXIT COSTS AND RESTRUCTURING RESERVES

The Company incurred no restructuring costs for the three and nine months ended September 30, 2016.

For the three months ended September 30, 2015, the Company incurred no restructuring costs. For the nine months ended September 30, 2015, the Company incurred $27 million of restructuring costs, consisting of $18 million of facilities costs in occupancy, $6 million in outside services, and $3 million in salaries and employee benefits, substantially completing the restructuring initiatives designed to enhance operating efficiencies and reduce expense growth.

For segment reporting, all of these restructuring costs are reported within Other. See Note 18 “Business Segments” for further information.

The following tables present the activity in the exit costs and restructuring reserves:

	As of and for the Three Months Ended September 30,							
	2016				2015			
(in millions)	Salaries & Employee Benefits	Occupancy & Equipment	Other	Total	Salaries & Employee Benefits	Occupancy & Equipment	Other	Total
Beginning of period balance	$8	$12	$—	$20	$21	$27	$4	$52
Additions	—	—	—	—	—	1	—	1
Reversals	—	—	—	—	—	(1)	—	(1)
Utilization	(6)	(1)	—	(7)	(5)	(8)	(1)	(14)
End of period balance	$2	$11	$—	$13	$16	$19	$3	$38

	As of and for the Nine Months Ended September 30,							
	2016				2015			
(in millions)	Salaries & Employee Benefits	Occupancy & Equipment	Other	Total	Salaries & Employee Benefits	Occupancy & Equipment	Other	Total
Beginning of period balance	$12	$16	$5	$33	$23	$18	$3	$44
Additions	—	—	—	—	5	18	6	29
Reversals	—	—	—	—	(2)	(1)	—	(3)
Utilization	(10)	(5)	(5)	(20)	(10)	(16)	(6)	(32)
End of period balance	$2	$11	$—	$13	$16	$19	$3	$38

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 17 - RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables present the changes in the balances, net of income taxes, of each component of AOCI:

	As of and for the three months ended September 30,			
(in millions)	Net Unrealized Gains (Losses) on Derivatives	Net Unrealized Gains (Losses) on Securities	Defined Benefit Pension Plans	Total AOCI
Balance at beginning of period July 1, 2015	($13)	$27	($373)	($359)
Other comprehensive income before reclassifications	48	61	—	109
Other-than-temporary impairment not recognized in earnings on securities	—	(8)	—	(8)
Amounts reclassified from other comprehensive (loss) income	(4)	—	3	(1)
Net other comprehensive income	44	53	3	100
Balance at end of period	$31	$80	($370)	($259)

September 30, 2015

Balance at beginning of period July 1, 2016	$39	$166	($364)	($159)
Other comprehensive income before reclassifications	(1)	(28)	—	(29)
Other-than-temporary impairment not recognized in earnings on securities	—	3	—	3
Amounts reclassified from other comprehensive (loss) income	(6)	2	2	(2)
Net other comprehensive (loss) income	(7)	(23)	2	(28)
Balance at end of period September 30, 2016	$32	$143	($362)	($187)

	As of and for the nine months ended September 30,			
(in millions)	Net Unrealized Gains (Losses)	Net Unrealized Gains (Losses) on	Defined Benefit Pension Plans	Total AOCI

	on Securities	Derivatives		
Balance at beginning of period January 1, 2015	($69)	$74	($377)	($372)
Other comprehensive income before reclassifications	108	41	—	149
Other-than-temporary impairment not recognized in earnings on securities	—	(26)	—	(26)
Amounts reclassified from other comprehensive (loss) income	(8)	(9)	7	(10)
Net other comprehensive income	100	6	7	113
Balance at end of period September 30, 2015	$31	$80	($370)	($259)
Balance at beginning of period January 1, 2016	$10	($28)	($369)	($387)

Other comprehensive income before reclassifications	45	190	—	235
Other-than-temporary impairment not recognized in earnings on securities	—	(18)	—	(18)
Amounts reclassified from other comprehensive (loss) income	(23)	(1)	7	(17)
Net other comprehensive income	22	171	7	200
Balance at end of period	$32	$143	($362)	($187)

September 30, 2016

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CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table presents the amounts reclassified out of each component of AOCI and into the Consolidated Statements of Operations:

(in millions)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	
Details about AOCI Components					Affected Line Item in the Consolidated Statements of Operations
Reclassification adjustment for net derivative gains (losses) included in net income:	$23	$22	$66	$57	Interest income
	(8)	(15)	(24)	(44)	Interest expense
	(5)	—	(5)	—	Other income
	10	7	37	13	Income before income tax expense
	4	3	14	5	Income tax expense
	$6	$4	$23	$8	Net income
Reclassification of net securities gains (losses) to net income:	$—	$2	$13	$19	Securities gains, net
	(3)	(2)	(11)	(5)	Net securities impairment losses recognized in earnings
	(3)	—	2	14	Income before income tax expense
	(1)	—	1	5	Income tax expense
	($2)	$—	$1	$9	Net income
Reclassification of changes related to defined benefit pension plans:	($4)	($3)	($12)	($10)	Salaries and employee benefits
	(4)	(3)	(12)	(10)	Income before income tax expense
	(2)	—	(5)	(3)	Income tax expense
	($2)	($3)	($7)	($7)	Net income
Total reclassification gains (losses)	$2	$1	$17	$10	Net income

The following table presents the effects on net income of the amounts reclassified out of AOCI:

(in millions)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net interest income (includes $15, $7, $42 and $13 of AOCI reclassifications, respectively)	$945	$856	$2,772	$2,532
Provision for credit losses	86	76	267	211
Noninterest income (includes ($8), $0, ($3) and $14 of AOCI reclassifications, respectively)	435	353	1,120	1,060
Noninterest expense (includes $4, $3, $12 and $10 of AOCI reclassifications, respectively)	867	798	2,505	2,449
Income before income tax expense	427	335	1,120	932
	130	115	357	313

Income tax expense (includes $1, $3, $10 and $7 income tax net expense from reclassification items, respectively)				
Net income	$297	$220	$763	$619

NOTE 18 - BUSINESS SEGMENTS

The Company is managed by its CEO on a segment basis. The Company’s two business segments are Consumer Banking and Commercial Banking. The business segments are determined based on the products and services provided, or the type of customer served. Each segment has one or more segment heads who report directly to the CEO. The CEO has final authority over resource allocation decisions and performance assessment. The business segments reflect this management structure and the manner in which financial information is currently evaluated by the CEO. Non-segment operations are classified as Other, which includes corporate functions, the Treasury function, the securities portfolio, wholesale funding activities, intangible assets, community development, non-core assets, and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses.

Reportable Segments

Segment results are determined based upon the Company's management reporting system, which assigns balance sheet and income statement items to each of the business segments. The process is designed around the Company's organizational and management structure and accordingly, the results derived are not necessarily comparable with similar information published by other financial institutions. A description of each reportable segment and table of financial results is presented below:

Consumer Banking

The Consumer Banking segment focuses on retail customers and small businesses with annual revenues of up to $25 million. It offers traditional banking products and services, including checking, savings, home loans, student loans, credit cards, business loans and financial management services. It also operates an indirect auto financing business, providing financing for both new and used vehicles through auto dealerships. The segment's distribution channels include a branch network, ATMs and a work force of experienced specialists ranging from financial consultants, mortgage loan officers and business banking officers to private bankers. Our Consumer Banking value proposition is based on providing simple, easy to understand product offerings and a convenient banking experience with a more personalized approach.

Commercial Banking

The Commercial Banking segment primarily targets companies with annual revenues from $25 million to $2.5 billion and provides a full complement of financial products and solutions, including loans, leases, trade financing, deposits, cash management, commercial cards, foreign exchange, interest rate risk management, corporate finance and capital markets advisory capabilities. It focuses on middle-market companies, large corporations and institutions and has dedicated teams with industry expertise in government banking, not-for-profit, healthcare, technology, professionals, oil & gas, asset finance, franchise finance, asset-based lending, commercial real estate, private equity and sponsor finance. While the segment's business development efforts are predominantly focused in the Company's footprint, some of its specialized industry businesses also operate selectively on a national basis (such as healthcare, asset finance and franchise finance). A key component of Commercial Banking's growth strategy is to bring ideas to clients that help their businesses thrive, and in doing so, expand the loan portfolio and ancillary product sales.

Non-segment Operations

Other

In addition to non-segment operations, Other includes certain reconciling items in order to translate the segment results that are based on management accounting practices into consolidated results. For example, Other includes goodwill and any associated goodwill impairment charges.

	As of and for the Three Months Ended September 30, 2016			
(in millions)	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income (expense)	$621	$327	($3)	$945
Noninterest income	229	123	83	435
Total revenue	850	450	80	1,380
Noninterest expense	650	181	36	867
Profit before provision for credit losses	200	269	44	513
Provision for credit losses	57	19	10	86
Income before income tax expense (benefit)	143	250	34	427
Income tax expense (benefit)	51	88	(9)	130
Net income	$92	$162	$43	$297
Total average assets	$56,689	$47,902	$39,808	$144,399

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

	As of and for the Three Months Ended September 30, 2015			
(in millions)	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	$556	$299	$1	$856
Noninterest income	235	100	18	353
Total revenue	791	399	19	1,209
Noninterest expense	623	175	—	798
Profit before provision for credit losses	168	224	19	411
Provision for credit losses	64	3	9	76
Income before income tax expense (benefit)	104	221	10	335
Income tax expense	36	76	3	115
Net income	$68	$145	$7	$220
Total average assets	$53,206	$43,113	$38,784	$135,103

	As of and for the Nine Months Ended September 30, 2016			
(in millions)	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	$1,804	$941	$27	$2,772
Noninterest income	656	344	120	1,120
Total revenue	2,460	1,285	147	3,892
Noninterest expense	1,898	554	53	2,505
Profit before provision for credit losses	562	731	94	1,387
Provision for credit losses	169	27	71	267
Income before income tax expense (benefit)	393	704	23	1,120
Income tax expense (benefit)	140	245	(28)	357
Net income	$253	$459	$51	$763
Total average assets	$55,825	$46,869	$39,101	$141,795

	As of and for the Nine Months Ended September 30, 2015			
(in millions)	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	$1,633	$861	$38	$2,532
Noninterest income	684	308	68	1,060
Total revenue	2,317	1,169	106	3,592
Noninterest expense	1,832	529	88	2,449
Profit before provision for credit losses	485	640	18	1,143
Provision for credit losses	187	(11)	35	211
Income (loss) before income tax expense (benefit)	298	651	(17)	932
Income tax expense (benefit)	103	224	(14)	313
Net income (loss)	$195	$427	($3)	$619
Total average assets	$52,438	$42,451	$39,766	$134,655

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Management accounting practices utilized by the Company as the basis for presentation of segment results include the following:

FTP adjustments

The Company utilizes an FTP system to eliminate the effect of interest rate risk from the segments' net interest income because such risk is centrally managed within the Treasury function. The FTP system credits (or charges) the segments with the economic value of the funds created (or used) by the segments. The FTP system provides a funds credit for sources of funds and a funds charge for the use of funds by each segment. The sum of the interest income/expense and FTP charges/credits for each segment is its designated net interest income. The variance between the Company's cumulative FTP charges and cumulative FTP credits is offset in Other.

Provision for credit losses allocations

Provision for credit losses is allocated to each business segment based on actual net charge-offs recognized by the business segment. The difference between the consolidated provision for credit losses and the business segments' net charge-offs is reflected in Other.

Income tax allocations

Income taxes are assessed to each line of business at a standard tax rate with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Other.

Expense allocations

Noninterest expenses incurred by centrally managed operations or business lines that directly support another business line's operations are charged to the applicable business line based on its utilization of those services.

Goodwill

For impairment testing purposes, the Company allocates goodwill to its Consumer Banking and Commercial Banking reporting units. For management reporting purposes, the Company presents the goodwill balance (and any related impairment charges) in Other.

Substantially all revenues generated and long-lived assets held by the Company's business segments are derived from clients that reside in the United States. Neither business segment earns revenue from a single external customer that represents 10 percent or more of the Company's total revenues.

NOTE 19 - EARNINGS PER SHARE

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions, except share and per-share data)	2016	2015	2016	2015
Numerator (basic and diluted):				
Net income	$297	$220	$763	$619
Less: Preferred stock dividends	7	7	14	7
Net income available to common stockholders	$290	$213	$749	$612
Denominator:				
Weighted-average common shares outstanding - basic	519,458,976	530,985,255	525,477,273	537,279,222
Dilutive common shares: share-based awards	1,663,490	2,712,903	1,784,116	2,147,139
Weighted-average common shares outstanding - diluted	521,122,466	533,698,158	527,261,389	539,426,361
Earnings per common share:				
Basic	$0.56	$0.40	$1.43	$1.14
Diluted	0.56	0.40	1.42	1.13

Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each period. Diluted EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each period, plus the effect of potential dilutive common shares such as share-based awards, using the treasury stock method. Potential dilutive common shares are excluded from the computation of diluted EPS in the periods where the effect would be

antidilutive.

CITIZENS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 20 - OTHER OPERATING EXPENSE

The following table presents the details of other operating expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Deposit insurance	$32	$28	$87	$88
Promotional expense	24	25	73	76
Other	88	80	227	241
Other operating expense	$144	$133	$387	$405

NOTE 21 - SUBSEQUENT EVENTS

The Company has evaluated the impacts of events that have occurred subsequent to September 30, 2016 through the date the Consolidated Financial Statements were filed with the SEC. Based on this evaluation, the Company has determined none of these events were required to be recognized or disclosed in the Consolidated Financial Statements and related Notes, except as follows:

On October 19, 2016, the Company declared a quarterly common stock dividend of $0.12 per share, or approximately $62 million, payable on November 16, 2016 to stockholders of record at the close of business on November 2, 2016.

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

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CITIZENS FINANCIAL GROUP, INC.
FORWARD-LOOKING STATEMENTS

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

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

- Negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of nonperforming assets, charge-offs and provision expense;
- The rate of growth in the economy and employment levels, as well as general business and economic conditions;
- Our ability to implement our strategic plan, including the cost savings and efficiency components, and achieve our indicative performance targets;
- Our ability to remedy regulatory deficiencies and meet supervisory requirements and expectations;
- Liabilities and business restrictions resulting from litigation and regulatory investigations;
- Our capital and liquidity requirements (including under regulatory capital standards, such as the Basel III capital standards) and our ability to generate capital internally or raise capital on favorable terms;
- The effect of the current low interest rate environment or changes in interest rates on our net interest income, net interest margin and our mortgage originations, mortgage servicing rights and mortgages held for sale;
- Changes in interest rates and market liquidity, as well as the magnitude of such changes, which may reduce interest margins, impact funding sources and affect the ability to originate and distribute financial products in the primary and secondary markets;
- The effect of changes in the level of checking or savings account deposits on our funding costs and net interest margin;
- Financial services reform and other current, pending or future legislation or regulation that could have a negative effect on our revenue and businesses, including the Dodd-Frank Act and other legislation and regulation relating to bank products and services;
- A failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors or other service providers, including as a result of cyber-attacks; and
- Management’s ability to identify and manage these and other risks.

In addition to the above factors, we also caution that the amount and timing of any future common stock dividends or share repurchases will depend on our financial condition, earnings, cash needs, regulatory constraints, capital requirements (including requirements of our subsidiaries), and any other factors that our Board of Directors deems relevant in making such a determination. Therefore, there can be no assurance that we will pay any dividends to holders of our common stock, or as to the amount of any such dividends.

More information about factors that could cause actual results to differ materially from those described in the forward-looking statements can be found under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015.

CITIZENS FINANCIAL GROUP, INC.
SELECTED CONSOLIDATED FINANCIAL DATA

Selected Consolidated Financial Data

The summary Consolidated Operating Data for the three and nine months ended September 30, 2016 and 2015 and the summary Consolidated Balance Sheet data as of September 30, 2016 are derived from our unaudited interim Consolidated Financial Statements included in Part I, Item 1 — Financial Statements of this report. Our historical results are not necessarily indicative of the results expected for any future period.

In our opinion, the unaudited interim Consolidated Financial Statements have been prepared on the same basis as the audited Consolidated Financial Statements and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the information set forth herein. Our operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of those to be expected for the year ending December 31, 2016 or for any future period. The following selected consolidated financial data should be read in conjunction with our unaudited interim Consolidated Financial Statements and the Notes thereto.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions, except per share amounts)	2016	2015	2016	2015
OPERATING DATA:				
Net interest income	$945	$856	$2,772	$2,532
Noninterest income	435	353	1,120	1,060
Total revenue	1,380	1,209	3,892	3,592
Provision for credit losses	86	76	267	211
Noninterest expense	867	798	2,505	2,449
Income before income tax expense	427	335	1,120	932
Income tax expense	130	115	357	313
Net income	$297	$220	$763	$619
Net income available to common stockholders	$290	$213	$749	$612
Net income per common share - basic	$0.56	$0.40	$1.43	$1.14
Net income per common share - diluted	$0.56	$0.40	$1.42	$1.13
OTHER OPERATING DATA:				
Return on average common equity [1]	5.82 %	4.40 %	5.08 %	4.23 %
Return on average tangible common equity	8.58	6.60	7.51	6.34
Return on average total assets [2]	0.82	0.65	0.72	0.62
Return on average total tangible assets	0.86	0.68	0.75	0.65
Efficiency ratio	62.88	66.02	64.36	68.17
Net interest margin [3]	2.84	2.76	2.85	2.75

CITIZENS FINANCIAL GROUP, INC.
SELECTED CONSOLIDATED FINANCIAL DATA

(in millions)	September 30, 2016		December 31, 2015	
BALANCE SHEET DATA:				
Total assets	$147,015		$138,208	
Loans and leases [4]	105,467		99,042	
Allowance for loan and lease losses	1,240		1,216	
Total securities	25,704		24,075	
Goodwill	6,876		6,876	
Total liabilities	126,834		118,562	
Total deposits	108,327		102,539	
Federal funds purchased and securities sold under agreements to repurchase	900		802	
Other short-term borrowed funds	2,512		2,630	
Long-term borrowed funds	11,902		9,886	
Total stockholders’ equity	20,181		19,646	
OTHER BALANCE SHEET DATA:				
Asset Quality Ratios:				
Allowance for loan and lease losses as a percentage of total loans and leases	1.18	%	1.23	%
Allowance for loan and lease losses as a percentage of nonperforming loans and leases	112.03		114.60	
Nonperforming loans and leases as a percentage of total loans and leases	1.05		1.07	
Capital Ratios:[5]				
CET1 capital ratio [6]	11.3		11.7	
Tier 1 capital ratio [7]	11.5		12.0	
Total capital ratio [8]	14.2		15.3	
Tier 1 leverage ratio [9]	10.1		10.5	

[1] “Return on average common equity” is defined as annualized net income available to common stockholders divided by average common equity.
[2] “Return on average total assets” is defined as annualized net income divided by average total assets.
[3] “Net interest margin” is defined as annualized net interest income divided by average total interest-earning assets.
[4] Excludes loans held for sale of $526 million and $365 million as of September 30, 2016 and December 31, 2015, respectively.
[5] Basel III transitional rules for institutions applying the Standardized approach to calculating risk-weighted assets became effective January 1, 2015. The capital ratios and associated components as of September 30, 2016 and December 31, 2015 are prepared using the Basel III Standardized transitional approach.
[6] “Common equity tier 1 capital ratio” represents CET1 divided by total risk-weighted assets as defined under Basel III Standardized approach.
[7] “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.
[8] “Total capital ratio” is total capital divided by total risk-weighted assets as defined under Basel III Standardized approach.
[9] “Tier 1 leverage ratio” is tier 1 capital divided by quarterly average total assets as defined under Basel III Standardized approach.

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Overview

We are one of the nation's oldest and largest financial institutions, with $147.0 billion of total assets as of September 30, 2016. Headquartered in Providence, Rhode Island, we deliver a broad range of retail and commercial banking products and services to individuals, institutions and companies. Our approximately 17,600 colleagues strive to meet the financial needs of customers and prospects through approximately 1,200 branches and approximately 3,200 ATMs operated in 11 states in the New England, Mid-Atlantic and Midwest regions and through our online, telephone and mobile banking platforms. We conduct our banking operations through two wholly-owned banking subsidiaries, Citizens Bank, N.A. and Citizens Bank of Pennsylvania, and we operate our businesses through two operating segments, Consumer Banking and Commercial Banking.

Consumer Banking serves retail customers and small businesses with annual revenues of up to $25 million with products and services that include deposit products, mortgage and home equity lending, student loans, auto financing, credit cards, business loans and wealth management and investment services. Consumer Banking average loans and leases totaled $54.5 billion and $51.1 billion, or 53% of average loan and leases (including loans held for sale) for both the nine months of 2016 and 2015, respectively.

Commercial Banking offers corporate, institutional and not-for-profit clients a full range of wholesale banking products and services including lending and deposits, capital markets, treasury services, foreign exchange and interest hedging, leasing and asset finance, specialty finance and trade finance. Commercial Banking average loans and leases totaled $45.5 billion compared with $41.2 billion, or 44% and 43% of average loan and leases (including loans held for sale) for both the nine months 2016 and 2015, respectively.

Non-core assets totaled $3.0 billion as of September 30, 2016 compared with $2.3 billion as of December 31, 2015, an increase of 26%. Non-core assets are primarily loans that are not aligned to our strategic priorities, generally as a result of geographic location, industry, product type, or risk level. This increase was driven by the transfer of a $1.2 billion commercial lease and loan portfolio tied to legacy RBS aircraft leasing borrowers that we placed in runoff following a review of the Asset Finance business in third quarter 2016. This portfolio of largely investment-grade client aircraft leases do not meet go-forward business model strategic and risk-adjusted return parameters, and we plan to exit these non-strategic relationships. These assets were designated as non-core and transferred to Other.

The largest component of our retail non-core portfolio is the home equity products serviced by others portfolio (a portion of which we now service internally). Non-core assets are included in Other along with the treasury function, securities portfolio, wholesale funding activities, goodwill, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to the Consumer Banking or Commercial Banking segments.

We regularly incur expenses associated with investments in our infrastructure. For example, from 2011 to 2015 we invested $1.3 billion in infrastructure and technology, and plan to invest approximately $181 million in 2016 and approximately $210 million in 2017. We invested $131 million in our infrastructure in the first nine months of 2016. These investments, which are designed to lower our operating costs and improve our customer experience, include significant programs to enhance our resiliency, upgrade customer-facing technology and streamline operations.

For the third quarter 2016, we recorded income before income tax expense and net income of $427 million and $297 million, respectively. Third quarter 2016 results included a $31 million pre-tax, or $19 million after-tax benefit from notable items, presented below.

(dollars in millions, except EPS impact)	Three Months Ended September 30, 2016		
	Pre tax	After tax	EPS Impact
Gain on mortgage/home equity TDR Transaction	$72	$45	$0.09
Home equity operational items[1]	(8)	(5)	(0.01)

TDR gain after impact of home equity operational items	64	40	0.08
Asset Finance repositioning[2]	(16)	(10)	(0.02)
TOP III efficiency initiatives[3]	(17)	(11)	(0.02)
Total	$31	$19	$0.04

[1] Pre-tax reflects $3 million of other expense, $3 million of amortization of software and $2 million of outside services.
[2] Pre-tax reflects ($5) million noninterest income impact and $11 million of other expense related to lease-residual impairment tied to legacy RBS aircraft leasing borrowers moved to runoff in non-core.
[3] Pre-tax expense reflects $11 million in salaries and benefits and $6 million in outside services associated with TOP III efficiency initiatives.

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Recent Events

In third quarter 2016, we repurchased $250 million, or 11,062,192 shares of common stock at an average price of $22.60.

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 debt.

Key Factors Affecting Our Business

Macroeconomic conditions

Our business is affected by national and regional economic conditions, as well as the perception of future conditions and economic prospects. The significant macroeconomic factors that impact our business include the rate of economic expansion, the health of the housing market, unemployment levels and interest rates in the United States.

The U.S. economy continued to expand at a moderate pace, with GDP rising by 2.9% in third quarter 2016, following 1.9% growth in 2015. The housing sector remains steady as previous quarters, with three month average existing home sales of 5.4 million units.

The labor market continued to improve, with moderate job gains and lower levels of unemployment. The U.S. unemployment rate was 5.0% at September 30, 2016 and December 31, 2015. Average monthly nonfarm employment increased by 192,000 in third quarter 2016, after a revised average increase of 146,000 in second quarter 2016.

The FRB maintained very accommodative monetary policy conditions during third quarter 2016, and continues to target a 0.25% to 0.50% federal funds rate range at the short end of the yield curve. Interest rates remain relatively low. See "—Interest rates" below for further discussion of the impact of interest rates on our results. Observable inflation levels remain below the FRB's longer-term objective of 2.0%. Further labor market improvement and the dissipation of the effects of a decline in energy and import prices are expected to bring inflation closer to the FRB's inflation objective.

Interest rates

Net interest income is our largest source of revenue and is the difference between the interest earned on interest-earning assets (usually loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (usually deposits and borrowings). The level of net interest income is primarily a function of the average balance of interest-earning assets, the average balance of interest-bearing liabilities and the spread between the contractual yield on such assets and the contractual cost of such liabilities. These factors are influenced by the pricing and mix of interest-earning assets and interest-bearing liabilities which, in turn, are impacted by external factors such as local economic conditions, competition for loans and deposits, the monetary policy of the FRB and market interest rates. For further discussion, refer to "—Risk Governance" and "—Market Risk — Non-Trading Risk included in this report.

The cost of our deposits and short-term wholesale borrowings is largely based on short-term interest rates, which are primarily driven by the FRB's actions. However, the yields generated by our loans and securities are typically driven by both short-term and long-term interest rates, which are set by the market or, at times, by the FRB's actions. The level of net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. In 2015 and through third quarter 2016, short-term and long-term interest rates remained at very low levels by historical standards, with many benchmark rates, such as the federal funds rate and one- and three-month LIBOR, near zero. Further declines in the yield curve or a decline in longer-term yields relative to short-term yields (a flatter yield curve) would have an adverse impact on our net interest margin and net interest income.

In 2015 and through third quarter 2016, the FRB maintained a highly accommodative monetary policy, and indicated that this policy would remain in effect for a considerable time after its asset purchase program ended on October 29, 2014 and the economic recovery strengthens in the United States. More recently, the FRB has started to move down the path of interest rate normalization by raising the federal funds rate by 25 basis points in December 2015. However, the FRB will likely continue to target a highly accommodative monetary policy for some time to come.

Credit trends

Credit metrics and asset quality remained strong and broadly stable in third quarter 2016. Nonperforming loans of $1.1 billion as of September 30, 2016 increased $73 million from September 30, 2015, reflecting an increase in commercial nonperforming assets largely driven by commodity-based businesses, partially offset by improvement in retail products. Net charge-offs of $83 million increased $8 million from $75 million in third quarter 2015, largely driven by the commercial oil and gas portfolio, and included $62 million in recoveries of prior period charge-offs, compared with $45 million in third quarter 2015. Annualized net charge-offs as a percentage of total average loans of 0.32%, was relatively stable compared to 0.31% in third quarter 2015.

Credit metrics and asset quality remained relatively stable in the first nine months of 2016. Net charge-offs of $231 million increased $24 million from $207 million in the first nine months of 2015, which included $153 million in recoveries for the first nine months of 2016 compared to $149 million in recoveries for the first nine months of 2015. Annualized net charge-offs as a percentage of total average loans of 0.30%, was relatively stable compared to 0.29% in the first nine months of 2015.

Regulatory trends

We are subject to extensive regulation and supervision, which continue to evolve as the legal and regulatory framework governing our operations continues to change. The current operating environment also has heightened regulatory expectations around many regulations including consumer compliance, the Bank Secrecy Act, anti-money laundering compliance, and increased internal audit activities. As a result of these heightened expectations, we expect to incur additional costs for additional compliance personnel and/or professional fees associated with advisors and consultants.

Dodd-Frank regulation

As described under "Regulation and Supervision" in Part I, Item 1 — Business included in our Annual Report on Form 10-K for the year ended December 31, 2015, we are subject to a variety of laws and regulations, including the Dodd-Frank Act. The Dodd-Frank Act is complex, and many aspects of the Dodd-Frank Act are subject to final rulemaking or phased implementation that will take effect over several years. The Dodd-Frank Act will continue to impact our earnings through fee reductions, higher costs and imposition of new restrictions on us. The Dodd-Frank Act may also continue to have a material adverse impact on the value of certain assets and liabilities held on our balance sheet. The ultimate impact of the Dodd-Frank Act on our business will depend on regulatory interpretation and rulemaking as well as the success of any of our actions to mitigate the negative impacts of certain provisions. Key parts of the Dodd-Frank Act that specifically impact our business are the repeal of a previous prohibition against payment of interest on demand deposits, which became effective in July 2011, and the introduction of a capital planning and stress-testing framework developed by the FRBG, known as CCAR and DFAST. Under this supervisory framework, we are required to submit annual capital plans to the FRB and are subject to annual supervisory and semiannual internal stress tests requirements.

Consistent with these requirements, we must submit our annual capital plan and the results of our annual company-run stress tests to the FRB by April 5th of each year and disclose certain results within 15 days of the date the FRB discloses the results of its supervisory-run tests. We submitted our 2016 Capital Plan and related annual stress test results to the Federal Reserve on April 5, 2016. We published our estimated results under the supervisory severely adverse scenario on the Investor Relations regulatory filings and disclosures page of our corporate website on June 23, 2016. The annual DFAST process projects net income, loan losses and capital ratios during a nine-quarter horizon under hypothetical, stressful macroeconomic and financial market scenarios developed by the FRBG as well as certain mandated assumptions about capital distributions prescribed in the DFAST rule. Consistent with the purpose of these exercises and the assumptions used to assess our performance during hypothetical economic conditions, the projected results under the required stress scenarios show severe negative impacts on earnings and decline in capital ratios. However, these pro forma results should not be interpreted as management expectations but rather as a possible result under hypothetical, severely adverse economic conditions that do not take into account capital conservation actions that would be mandated by internal policy if such conditions were actually to occur.

Similarly, we are required to submit the results of our mid-cycle company-run DFAST stress tests by October 5th of each year and disclose the results under an internally developed severely adverse scenario between October 5th and November 4th. We submitted the results of our 2016 mid-cycle stress test to the FRB on October 3, 2016 and disclosed a summary of the results on October 5, 2016.

The Dodd-Frank Act also requires each of our bank subsidiaries to conduct stress tests on an annual basis and to disclose the stress test results. CBNA submitted its 2016 annual stress tests to the OCC on April 5, 2016 and published a summary of the results along with the stress test result of the bank holding company parent in June 2016. CBPA

submitted its 2016 annual stress tests to the FDIC on April 5, 2016 and published its summary results as an update to the CFG / CBNA Dodd-Frank Act Company-Run Stress Test Disclosure on our Investor Relations site on October 17, 2016, prior to the October 31, 2016 deadline that the FDIC sets for banks with $10 - $50 billion in total assets.

Comprehensive Capital Analysis and Review

CCAR is an annual exercise by the FRBG to ensure that the largest bank holding companies have sufficient capital to continue operations throughout times of economic and financial stress and robust forward-looking capital planning processes that account for their unique risks.

As part of CCAR, the FRBG evaluates institutions' capital adequacy, internal capital adequacy assessment processes and their plans to make capital distributions, such as dividend payments or stock repurchases. The FRBG may either object to our capital plan, in whole or in part, or provide a notice of non-objection. If the FRBG objects to our capital plan, we may not make any capital distribution other than those with respect to which the FRBG has indicated its non-objection.

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 proposed 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 proposed capital distributions are subject to consideration and approval by 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. The Board has approved a share repurchase plan that may be executed in the open market or in privately negotiated transactions, including under Rule 10b5-1 plans.

Repeal of the prohibition on depository institutions paying interest on demand deposits

We began offering interest-bearing corporate checking accounts after the 2011 repeal of the prohibition on depository institutions paying interest on demand deposits. Currently, industry wide interest rates for this product are very low and thus far the impact of the repeal has not had a significant effect on our results. However, market rates could increase more significantly in the future. If we need to pay higher interest rates on checking accounts to maintain current clients or attract new clients, our interest expense would increase, perhaps materially. Furthermore, if we fail to offer interest rates at a sufficient level to retain demand deposits, our core deposits may be reduced, which would require us to obtain funding in other ways or limit potential future asset growth.

Basel III final rules applicable to us and our banking subsidiaries

In July 2013, the FRB, OCC, and FDIC issued the U.S. Basel III final rules. The rules implement the 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 risked-based capital and leverage requirements applicable to bank holding companies and their insured depository institution subsidiaries, including CBNA and CBPA. The U.S. Basel III final rules became effective for us and our depository institution subsidiaries, including CBNA and CBPA, on January 1, 2015 (subject to a phase-in period for certain provisions). In order to comply with the new capital requirements, we established internal capital ratio targets that meet or exceed U.S. regulatory expectations under fully phased-in Basel III rules, and increased our capital requirements in anticipation of the transition that is underway.

HELOC payment shock

Attention has been given by regulators, rating agencies, and the general press regarding the potential for increased exposure to credit losses associated with HELOCs that were originated during the period of rapid home price appreciation between 2003 and 2007. Industry wide, many of the HELOCs originated during this timeframe were structured with an extended interest-only payment period followed by a requirement to convert to a higher payment amount that would begin fully amortizing both principal and interest beginning at a certain date in the future. To help manage this exposure, in September 2013, we launched a comprehensive program designed to provide heightened customer outreach to inform, educate and assist customers through the reset process as well as to offer alternative financing and forbearance options. Results of this program indicate that our efforts to assist customers at risk of default have successfully reduced delinquency and charge-off rates compared to our original expectations. As of September 30, 2016, approximately 21% of our $14.5 billion HELOC portfolio, or $3.0 billion in drawn balances were subject to a payment reset or balloon payment between October 1, 2016 and December 31, 2018, including $24 million in balloon balances where full payment is due at the end of a ten-year interest only draw period.

As of September 30, 2016, for the $1.6 billion of our HELOC portfolio that was originally structured with a reset period in 2014 and 2013, 94% of the balances were refinanced, paid off or were current on payments, 2% were past due and 4% had been charged off. As of September 30, 2016, for the $1.3 billion in balances originally structured with a reset period in 2015, 94% of the balances were refinanced, paid off or were current on payments, 4% were past due and 2% had been charged off. A total of $995 million in balances were originally structured with a reset period in

2016, with $138 million scheduled to reset for the remainder of 2016. Factors that affect our future expectations for charge-off risk for the portion of our HELOC portfolio subject to reset periods in the future include improved loan-to-value ratios resulting from continued home price appreciation, stable portfolio credit score profiles and more robust loss mitigation efforts.

Principal Components of Operations and Key Performance Metrics Used by Management

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

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

Net interest income

Net interest income is the difference between the interest earned on interest-earning assets (usually loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (usually deposits and borrowings). The level of net interest income is primarily a function of the average balance of interest-earning assets, the average balance of interest-bearing liabilities and the spread between the contractual yield on such assets and the cost of such liabilities. Net interest income is impacted by the relative mix of interest-earning assets and interest-bearing liabilities, movements in market interest rates, levels of nonperforming assets and pricing pressure from competitors. The mix of interest-earning assets is influenced by loan demand and by management's continual assessment of the rate of return and relative risk associated with various classes of interest-earning assets.

The mix of interest-bearing liabilities is influenced by management's assessment of the need for lower cost funding sources weighed against relationships with customers and growth requirements and is impacted by competition for deposits in our market and the availability and pricing of other sources of funds.

Noninterest income

The primary components of our noninterest income are service charges and fees, card fees, trust and investment services fees and mortgage banking fees.

Total revenue

Total revenue is the sum of our net interest income and our noninterest income.

Provision for credit losses

The provision for credit losses is the amount of expense that, based on our judgment, is required to maintain the allowance for credit losses at an amount that reflects probable losses inherent in the loan portfolio at the balance sheet date and that, in management's judgment, is appropriate under relevant accounting guidance. The provision for credit losses includes the provision for loan and lease losses as well as the provision for unfunded commitments. The determination of the amount of the allowance for credit losses is complex and involves a high degree of judgment and subjectivity. For additional information regarding the provision for credit losses, see "—Critical Accounting Estimates — Allowance for Credit Losses," Note 1 "Significant Accounting Policies" to the 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.

Noninterest expense

Noninterest expense includes salaries and employee benefits, outside services, occupancy expense, equipment expense, amortization of software, goodwill impairment, and other operating expenses.

Net income and Net Income Available to Common Stockholders

We evaluate our net income and net income available to common stockholders based on measures including return on average common equity, return on average total assets and return on average tangible common equity.

Loans and leases

We classify our loans and leases pursuant to the following classes: commercial, commercial real estate, leases, residential mortgages, home equity loans, home equity lines of credit, home equity loans serviced by others, home equity lines of credit serviced by others, automobile, student, credit cards and other retail. Our SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others, which we now service a portion of internally.

Loans are reported at the amount of their outstanding principal, net of charge-offs, unearned income, deferred loan origination fees and costs and unamortized premiums or discounts (on purchased loans). Deferred loan origination

fees and costs and purchase discounts and premiums are amortized as an adjustment of yield over the life of the loan, using the level yield interest method. Unamortized amounts remaining upon prepayment or sale are recorded as interest income or gain (loss) on sale, respectively. Credit card receivables include billed and uncollected interest and fees.

Leases are classified at the inception of the lease by type. Lease receivables, including leveraged leases, are reported at the aggregate of lease payments receivable and estimated residual values, net of unearned and deferred income, including unamortized investment credits. Lease residual values are reviewed at least annually for other-than-temporary impairment, with valuation adjustments recognized currently against noninterest income and noninterest expense. Leveraged leases are reported net of non-recourse debt. Unearned income is recognized to yield a level rate of return on the net investment in the leases.

Loans held for sale, at fair value

Mortgage loans and commercial loans held for sale are carried at fair value.

Other loans held for sale

Balances represent loans that were transferred to other loans held for sale are reported at the lower of cost or fair value.

Securities

Our securities portfolio is managed to seek return while maintaining prudent levels of quality, market risk and liquidity. Investments in debt and equity securities are carried in four portfolios: AFS, HTM, trading securities and other investment securities. We determine the appropriate classification at the time of purchase. Securities in our AFS portfolio will be held for indefinite periods of time and may be sold in response to changes in interest rates, changes in prepayment risk or other factors relevant to our asset and liability strategy. Securities in our AFS portfolio are carried at fair value, with unrealized gains and losses reported in OCI, as a separate component of stockholders' equity, net of taxes. Securities are classified as HTM because we have the ability and intent to hold the securities to maturity, and securities in our HTM portfolio are carried at amortized cost. Other investment securities are composed mainly of FHLB stock and FRB stock (which are carried at cost), and money market mutual fund investments held by our broker-dealer (which are carried at fair value, with changes in fair value recognized in noninterest income).

Allowance for credit losses

Our estimate of probable losses in the loan and lease portfolios is recorded in the ALLL and the reserve for unfunded lending commitments. Together these are referred to as the allowance for credit losses. We evaluate the adequacy of the allowance for credit losses using the following ratios: ALLL as a percentage of total loans and leases; ALLL as a percentage of nonperforming loans and leases; and nonperforming loans and leases as a percentage of total loans and leases. For additional information, see "—Critical Accounting Estimates — Allowance for Credit Losses," and Note 1 "Significant Accounting Policies" to the 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.

Deposits

Our deposits include: on demand checking, checking with interest, regular savings accounts, money market accounts and term deposits.

Borrowed funds

As of September 30, 2016, our total short-term borrowed funds included federal funds purchased, securities sold under agreement to repurchase, the current portion of FHLB advances and other short-term borrowed funds. As of September 30, 2016, our long-term borrowed funds included subordinated debt, unsecured notes, Federal Home loan advances and other long-term borrowed funds. For additional information, see "—Analysis of Financial Condition — Borrowed Funds," and Note 7 "Borrowed Funds" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

Derivatives

We use pay-fixed swaps to lengthen liabilities synthetically and offset duration in fixed-rate assets. We also use pay-fixed swaps to hedge floating-rate wholesale funding.

We use receive-fixed interest rate swaps to manage the interest rate exposure on our medium term borrowings. We also use receive-fixed swaps to minimize the exposure to variability in the interest cash flows on our floating rate assets. The assets and liabilities recorded for derivatives designated as hedges reflect the market value of these hedge instruments.

We 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. For additional information, see "—Analysis of Financial Condition — Derivatives," and Note 11 "Derivatives" to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

Key performance metrics and non-GAAP financial measures

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

- Return on average common equity, which we define as annualized net income available to common stockholders divided by average common equity;
- Return on average tangible common equity, which we define as annualized net income available to common stockholders divided by average common equity excluding average goodwill (net of related deferred tax liability) and average other intangibles;
- Return on average total assets, which we define as annualized net income divided by average total assets;
- Return on average total tangible assets, which we define as annualized net income divided by average total assets excluding average goodwill (net of related deferred tax liability) and average other intangibles;
- Efficiency ratio, which we define as the ratio of our total noninterest expense to the sum of net interest income and total noninterest income. We measure our efficiency ratio to evaluate the efficiency of our operations as it helps us monitor how costs are changing compared to our income. A decrease in our efficiency ratio represents improvement;
- Net interest margin, which we calculate by dividing annualized net interest income for the period by average total interest-earning assets, is a key measure that we use to evaluate our net interest income; and
- Common equity tier 1 capital ratio (Basel III fully phased-in basis), represents CET1 divided by total risk-weighted assets as defined under Basel III Standardized approach.

We present and provide reconciliations of certain non-GAAP measures. These reconciliations are adjusted for restructuring charges, special items and/or notable items, which are included, where applicable, in the financial results presented in accordance with GAAP. Restructuring charges and special items include expenses related to our efforts to improve processes and enhance efficiencies, as well as rebranding, separation from RBS and regulatory expenses. Notable items include certain revenue or expense items that may occur in a reporting period which management does not consider indicative of on-going financial performance.

We believe these non-GAAP measures provide useful information to investors because these are among the measures used by our management team to evaluate our operating performance and make day-to-day operating decisions. In addition, we believe restructuring charges, special items and/or notable items in any period do not reflect the operational performance of the business in that period and, accordingly, it is useful to consider these line items with and without restructuring charges, special items and/or notable items. We believe this presentation also increases comparability of period-to-period results.

Other companies may use similarly titled non-GAAP financial measures that are calculated differently from the way we calculate such measures. Accordingly, our non-GAAP financial measures may not be comparable to similar measures used by other companies. We caution investors not to place undue reliance on such non-GAAP measures, but instead to consider them with the most directly comparable GAAP measure. Non-GAAP financial measures have limitations as analytical tools, and should not be considered in isolation or as a substitute for our results reported under GAAP.

Non-GAAP measures are denoted throughout "—Results of Operations" by the use of the term "adjusted" and are followed by an asterisk (*).

The following table contains computations of key performance metrics and reconciliations of non-GAAP financial measures:

(dollars in millions, except per-share amounts)	Ref.	As of and for the Three Months Ended September 30, 2016	2015	As of and for the Nine Months Ended September 30, 2016	2015
Noninterest income, adjusted:					
Noninterest income (GAAP)		$435	$353	$1,120	$1,060
Less: Notable items					
Gain on mortgage/home equity TDR Transaction		72	—	72	—
Home equity operational items		—	—	—	—
Asset Finance repositioning		(5)	—	(5)	—
TOP III efficiency initiatives		—	—	—	—
Noninterest income, adjusted (non-GAAP)		$368	$353	$1,053	$1,060
Total revenue, adjusted:					
Total revenue (GAAP)	A	$1,380	$1,209	$3,892	$3,592
Less: Notable items					
Gain on mortgage/home equity TDR Transaction		72	—	72	—
Home equity operational items		—	—	—	—
Asset Finance repositioning		(5)	—	(5)	—
TOP III efficiency initiatives		—	—	—	—
Total revenue, adjusted (non-GAAP)	B	$1,313	$1,209	$3,825	$3,592
Noninterest expense, adjusted:					
Noninterest expense (GAAP)	C	$867	$798	$2,505	$2,449
Less: Restructuring charges		—	—	—	26
Less: Special items		—	—	—	24
Less: Notable items					
Gain on mortgage/home equity TDR Transaction		—	—	—	—
Home equity operational items		8	—	8	—
Asset Finance repositioning		11	—	11	—
TOP III efficiency initiatives		17	—	17	—
Noninterest expense, adjusted (non-GAAP)	D	$831	$798	$2,469	$2,399
Pre-provision profit, adjusted:					
Total revenue, adjusted (non-GAAP)	B	$1,313	$1,209	$3,825	$3,592
Noninterest expense, adjusted (non-GAAP)	D	831	798	2,469	2,399
Pre-provision profit, adjusted (non-GAAP)		$482	$411	$1,356	$1,193
Income before income tax expense, adjusted:					
Income before income tax expense (GAAP)		$427	$335	$1,120	$932
Less: Restructuring charges		—	—	—	(26)
Less: Special items		—	—	—	(24)
Less: Notable items					

Gain on mortgage/home equity TDR Transaction	72	—	72	—
Home equity operational items	(8)	—	(8)	—
Asset Finance repositioning	(16)	—	(16)	—
TOP III efficiency initiatives	(17)	—	(17)	—
Income before income tax expense, adjusted (non-GAAP)	$396	$335	$1,089	$982

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

		As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
(dollars in millions, except per-share amounts)	Ref.	2016	2015	2016	2015
Income tax expense, adjusted:					
Income tax expense (GAAP)		$130	$115	$357	$313
Less: Restructuring charges		—	—	—	(10)
Less: Special items		—	—	—	(9)
Less: Notable items					
Gain on mortgage/home equity TDR Transaction		27	—	27	—
Home equity operational items		(3)	—	(3)	—
Asset Finance repositioning		(6)	—	(6)	—
TOP III efficiency initiatives		(6)	—	(6)	—
Income tax expense, adjusted (non-GAAP)		$118	$115	$345	$332
Net income, adjusted:					
Net income (GAAP)	E	$297	$220	$763	$619
Add: Restructuring charges, net of tax expense		—	—	—	16
Add: Special items, net of tax expense		—	—	—	15
Add: Notable items, net of tax expense					
Gain on mortgage/home equity TDR Transaction		(45)	—	(45)	—
Home equity operational items		5	—	5	—
Asset Finance repositioning		10	—	10	—
TOP III efficiency initiatives		11	—	11	—
Net income, adjusted (non-GAAP)	F	$278	$220	$744	$650
Net income available to common stockholders, adjusted:					
Net income available to common stockholders (GAAP)	G	$290	$213	$749	$612
Add: Restructuring charges, net of tax expense		—	—	—	16
Add: Special items, net of tax expense		—	—	—	15
Add: Notable items, net of tax expense					
Gain on mortgage/home equity TDR Transaction		(45)	—	(45)	—
Home equity operational items		5	—	5	—
Asset Finance repositioning		10	—	10	—
TOP III efficiency initiatives		11	—	11	—
Net income available to common stockholders, adjusted (non-GAAP)	H	$271	$213	$730	$643
Net income per average common share-basic and diluted, adjusted:					
Average common shares outstanding - basic (GAAP)	I	519,458,906	537,985,255	525,477,283	533,279,222
Average common shares outstanding - diluted (GAAP)	J	521,122,366	543,398,158	527,261,384	540,926,361
Net income per average common share - basic (GAAP)	G/I	$0.56	$0.40	$1.43	$1.14
Net income per average common share - diluted (GAAP)	G/J	0.56	0.40	1.42	1.13
Net income per average common share-basic, adjusted (non-GAAP)	H/I	0.52	0.40	1.39	1.20
Net income per average common share-diluted, adjusted (non-GAAP)	H/J	0.52	0.40	1.39	1.19

Impact of restructuring charges, special items and/or notable items on net income per average common share - basic:				
Restructuring charges	$—	$—	$—	$0.03
Special items	—	—	—	0.03
Notable items:				
Gain on mortgage/home equity TDR Transaction	0.09	—	0.09	—
Home equity operational items	(0.01)	—	(0.01)	—
Asset Finance repositioning	(0.02)	—	(0.02)	—
TOP III efficiency initiatives	(0.02)	—	(0.02)	—
Impact of restructuring charges, special items and/or notable items on net income per average common share - basic	$0.04	$—	$0.04	$0.06

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		As of and for the Three Months Ended September 30,				As of and for the Nine Months Ended September 30,			
(dollars in millions, except per-share amounts)	Ref.	2016		2015		2016		2015	
Return on average common equity and return on average common equity, adjusted:									
Average common equity (GAAP)	K	$19,810		$19,261		$19,715		$19,352	
Return on average common equity	G/K	5.82	%	4.40	%	5.08	%	4.23	%
Return on average common equity, adjusted (non-GAAP)	H/K	5.44	%	4.40	%	4.95	%	4.45	%
Return on average tangible common equity and return on average tangible common equity, adjusted:									
Average common equity (GAAP)	K	$19,810		$19,261		$19,715		$19,352	
Less: Average goodwill (GAAP)		6,876		6,876		6,876		6,876	
Less: Average other intangibles (GAAP)		1		4		2		5	
Add: Average deferred tax liabilities related to goodwill (GAAP)		509		453		495		438	
Average tangible common equity	L	$13,442		$12,834		$13,332		$12,909	
Return on average tangible common equity	G/L	8.58	%	6.60	%	7.51	%	6.34	%
Return on average tangible common equity, adjusted (non-GAAP)	H/L	8.02	%	6.60	%	7.32	%	6.67	%
Return on average total assets and return on average total assets, adjusted:									
Average total assets (GAAP)	M	$144,399		$135,103		$141,795		$134,655	
Return on average total assets	E/M	0.82	%	0.65	%	0.72	%	0.62	%
Return on average total assets, adjusted (non-GAAP)	F/M	0.77	%	0.65	%	0.70	%	0.65	%
Return on average total tangible assets and return on average total tangible assets, adjusted:									
Average total assets (GAAP)	M	$144,399		$135,103		$141,795		$134,655	
Less: Average goodwill (GAAP)		6,876		6,876		6,876		6,876	
Less: Average other intangibles (GAAP)		1		4		2		5	
Add: Average deferred tax liabilities related to goodwill (GAAP)		509		453		495		438	
Average tangible assets	N	$138,031		$128,676		$135,412		$128,212	
Return on average total tangible assets	E/N	0.86	%	0.68	%	0.75	%	0.65	%
Return on average total tangible assets, adjusted (non-GAAP)	F/N	0.80	%	0.68	%	0.73	%	0.68	%
Efficiency ratio and efficiency ratio, adjusted:									
Efficiency ratio	C/A	62.88	%	66.02	%	64.36	%	68.17	%
Efficiency ratio, adjusted (non-GAAP)	D/B	63.31	%	66.02	%	64.54	%	66.78	%

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		As of and for the Three Months Ended September 30,							
		2016				2015			
(dollars in millions)	Ref.	Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated
Net income available to common stockholders:									
Net income (GAAP)	O	$92	$162	$43	$297	$68	$145	$7	$220
Less: Preferred stock dividends		—	—	7	7	—	—	7	7
Net income available to common stockholders (GAAP)	P	$92	$162	$36	$290	$68	$145	$—	$213
Efficiency ratio:									
Total revenue (GAAP)	Q	$850	$450	$80	$1,380	$791	$399	$19	$1,209
Noninterest expense (GAAP)	R	650	181	36	867	623	175	—	798
Efficiency ratio	R/Q	76.46 %	40.21 %	NM	62.88 %	78.72 %	43.75 %	NM	66.02 %
Return on average total tangible assets:									
Average total assets (GAAP)		$56,689	$47,902	$39,808	$144,399	$53,206	$43,113	$38,784	$135,103
Less: Average goodwill (GAAP)		—	—	6,876	6,876	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	1	1	—	—	4	4
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	509	509	—	—	453	453
Average total tangible assets	S	$56,689	$47,902	$33,440	$138,031	$53,206	$43,113	$32,357	$128,676
Return on average total tangible assets	O/S	0.64 %	1.35 %	NM	0.86 %	0.51 %	1.34 %	NM	0.68 %
Return on average tangible common equity:									
Average common equity (GAAP)[1]		$5,190	$5,172	$9,448	$19,810	$4,791	$4,722	$9,748	$19,261
Less: Average goodwill (GAAP)		—	—	6,876	6,876	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	1	1	—	—	4	4
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	509	509	—	—	453	453

Average tangible common equity [1]	T	$5,190	$5,172	$3,080	$13,442	$4,791	$4,722	$3,321	$12,834
Return on average tangible common equity [1]	P/T	7.04 %	12.50 %	NM	8.58 %	5.67 %	12.24 %	NM	6.60 %

[1] Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to
a sustainable target level for common equity tier 1 and then allocate that approximation to the segments based on economic capital.

CITIZENS FINANCIAL GROUP, INC.
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(dollars in millions)	Ref.	As of and for the Nine Months Ended September 30, 2016 Consumer Banking	2016 Commercial Banking	2016 Other	2016 Consolidated	2015 Consumer Banking	2015 Commercial Banking	2015 Other	2015 Consolidated
Net income available to common stockholders:									
Net income (GAAP)	U	$253	$459	$51	$763	$195	$427	($3)	$619
Less: Preferred stock dividends		—	—	14	14	—	—	7	7
Net income available to common stockholders (GAAP)	V	$253	$459	$37	$749	$195	$427	($10)	$612
Efficiency ratio:									
Total revenue (GAAP)	W	$2,460	$1,285	$147	$3,892	$2,317	$1,169	$106	$3,592
Noninterest expense (GAAP)	X	1,898	554	53	2,505	1,832	529	88	2,449
Efficiency ratio	X/W	77.15 %	43.15 %	NM	64.36 %	79.07 %	45.26 %	NM	68.17 %
Return on average total tangible assets:									
Average total assets (GAAP)		$55,825	$46,869	$39,101	$141,795	$52,438	$42,451	$39,766	$134,655
Less: Average goodwill (GAAP)		—	—	6,876	6,876	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	2	2	—	—	5	5
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	495	495	—	—	438	438
Average total tangible assets	Y	$55,825	$46,869	$32,718	$135,412	$52,438	$42,451	$33,323	$128,212
Return on average total tangible assets	U/Y	0.60 %	1.31 %	NM	0.75 %	0.50 %	1.35 %	NM	0.65 %
Return on average tangible common equity:									
Average common equity (GAAP)[1]		$5,130	$5,001	$9,584	$19,715	$4,708	$4,625	$10,019	$19,352
Less: Average goodwill (GAAP)		—	—	6,876	6,876	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	2	2	—	—	5	5
Add: Average deferred tax liabilities related to		—	—	495	495	—	—	438	438

goodwill (GAAP)									
Average tangible common equity [1]	Z	$5,130	$5,001	$3,201	$13,332	$4,708	$4,625	$3,576	$12,909
Return on average tangible common equity[1]	V/Z	6.58 %	12.27 %	NM	7.51 %	5.55 %	12.35 %	NM	6.34 %

[1] Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to
a sustainable target level for common equity tier 1 and then allocate that approximation to the segments based on economic capital.

Results of Operations — Three Months Ended September 30, 2016 Compared with Three Months Ended September 30, 2015

Highlights

For third quarter 2016:

- Net income of $297 million increased $77 million from $220 million in third quarter 2015;
- Net income included the benefit of $19 million in after-tax notable items. Excluding notable items, adjusted net income* increased $58 million, or 26%, to $278 million from $220 million in third quarter 2015;
- Net income available to common stockholders of $290 million increased $77 million or 36%, from $213 million in third quarter 2015. Excluding notable items, adjusted net income available to common stockholders* increased $58 million, or 27%, to $271 million from $213 million in third quarter 2015;
- Net interest income of $945 million increased $89 million, or 10%, from $856 million in third quarter 2015 driven by 7% average loan growth and an eight basis point improvement in net interest margin;
- Net interest margin of 2.84% increased eight basis points, compared to 2.76% in third quarter 2015. Results reflect improved loan yields given continued pricing and portfolio optimization initiatives, as well as higher short-term interest rates. These benefits were partially offset by a reduction in investment portfolio yields, including a reduction in FRB stock dividends, as well as increased borrowing costs;
- Noninterest income of $435 million increased $82 million, or 23%, from third quarter 2015 driven by the TDR Transaction gain. Excluding this impact, adjusted noninterest income increased $15 million as strength in mortgage banking fees, capital market fees and service charges and fees was partially offset by lower trust and investment service fees and other income;
- Noninterest expense of $867 million increased $69 million, or 9%, compared to $798 million in third quarter 2015 driven by the impact of $36 million in notable items. Excluding this impact, adjusted noninterest expense* increased $33 million driven by higher salaries and employee benefits, largely reflecting a change in the timing of merit increases and incentive payments that drove higher payroll taxes and retirement plan contributions, as well as increased software amortization, outside services, and higher occupancy and equipment expense;
- Provision for credit losses of $86 million increased $10 million, or 13%, from $76 million in third quarter of 2015, largely reflecting an increase tied to loan growth;
- Return on average common equity of 5.82% compared to 4.40% in third quarter 2015;
- Return on average tangible common equity of 8.58% and adjusted return on average tangible common equity* of 8.02%, compared with 6.60% in third quarter 2015;
- Average loans and leases of $104.0 billion increased $7.2 billion, or 7%, from $96.8 billion in third quarter 2015 reflecting a $4.5 billion increase in commercial loans and a $2.7 billion increase in retail loans;
- Average interest-bearing deposits of $79.2 billion increased $4.9 billion, or 7%, from $74.2 billion in third quarter 2015, driven by growth in every deposit category;
- Net charge-offs of $83 million increased $8 million, or 11%, from $75 million in third quarter 2015. The ALLL of $1.2 billion increased $24 million compared to fourth quarter 2015. ALLL to total loans and leases ratio of 1.18% as of September 30, 2016, compared with 1.23% as of December 31, 2015. ALLL to nonperforming loans and leases ratio of 112% as of September 30, 2016, compared with 115% as of December 31, 2015; and
- Net income per average common share of $0.56 and adjusted net income per common share* of $0.52, compared to $0.40 per average common share in third quarter 2015.

Results of Operations — Nine Months Ended September 30, 2016 Compared with Nine Months Ended September 30, 2015

Highlights

For the first nine months of 2016:

- Net income of $763 million increased $144 million compared to $619 million in the first nine months of 2015;
- Net income included $19 million in after-tax notable items, compared with $31 million in after-tax restructuring charges and special noninterest expense items in the first nine months of 2015. Excluding the impact of restructuring charges, special items and notable items, adjusted net income* increased $94 million, or 14%, to $744 million from $650 million in the first nine months of 2015;
- Net income available to common stockholders of $749 million increased $137 million, compared to $612 million in the first nine months of 2015. Excluding the impact of restructuring charges, special items and notable items, adjusted net income available to common stockholders* increased $87 million, or 14%, to $730 million from $643 million in the first nine months of 2015;
- Net interest income of $2.8 billion increased $240 million, or 9%, compared to $2.5 billion in the first nine months of 2015, reflecting 7% average loan growth, 6% average deposit growth and a 10 basis point improvement in net interest margin;
- Net interest margin of 2.85% increased 10 basis points, compared to 2.75% in the first nine months of 2015 driven by improved loan yields reflecting higher interest rates and continued improvement in loan mix as well as flat deposit costs;
- Noninterest income of $1.1 billion increased $60 million, or 6%, from the first nine months of 2015 levels largely driven by the TDR Transaction gain. Lower mortgage banking fees, card fees, trust and investment services fees, and foreign exchange and letter of credit fees were partially offset by an increase in service charges and fees and other income;
- Noninterest expense of $2.5 billion increased $56 million, or 2%, compared to $2.4 billion in the first nine months of 2015. Results reflected $36 million in notable items, compared to $50 million of restructuring charges and special items in the first nine months of 2015. Excluding the impact of restructuring charges, special items and notable items adjusted noninterest expense* increased $70 million, which reflected increases in salaries and employee benefits and outside services, software amortization, and occupancy and equipment expense, partially offset by other operating expense;
- Provision for credit losses of $267 million increased $56 million, or 27%, from $211 million in the first nine months of 2015, reflecting continued improvement in credit quality and improvement in retail net charge-offs. The first nine months of 2016 included a $36 million reserve build compared to a $4 million reserve build in the first nine months of 2015;
- Return on average common equity was 5.08% compared to 4.23% for the first nine months of 2015;
- Return on average tangible common equity was 7.51%, compared to 6.34% for the first nine months of 2015. Excluding the impact of restructuring charges, special items and notable items, adjusted return on average tangible common equity* improved to 7.32% from 6.67% in the first nine months of 2015;
- Average loans and leases of $102.3 billion increased $6.9 billion, or 7%, from $95.5 billion in the first nine months of 2015, driven by commercial loan growth across most products, and an increase in student, residential mortgage, and auto loans, partially offset by a decrease in home equity outstandings;
- Average interest-bearing deposits of $76.9 billion increased $4.8 billion, or 7% from $72.1 billion in the first nine months of 2015, driven by growth in all deposit products;
- Net charge-offs of $231 million increased $24 million, or 12%, from $207 million in the first nine months of 2015. The ALLL of $1.2 billion increased $24 million compared to fourth quarter 2015. ALLL to total loans and leases was 1.18% as of September 30, 2016, compared with 1.23% as of December 31, 2015. ALLL to nonperforming loans and leases ratio was 112% as of September 30, 2016, compared with 115% as of December 31, 2015; and
- Net income per average common share, basic and diluted was $1.43 and $1.42, compared to $1.14 and $1.13, per average common share, basic and diluted, respectively, in the first nine months of 2015.

Net Income

Net income totaled $297 million, up $77 million, or 35%, from $220 million in third quarter 2015. Third quarter 2016 results include a $19 million after-tax benefit from notable items, largely related to the gain on TDR Transaction sale as well as efforts to improve processes and enhance efficiencies. Excluding these items, adjusted net income* increased $58 million from third quarter 2015.

Net income totaled $763 million, up $144 million, or 23%, from $619 million in the first nine months of 2015. The first nine months of 2016 results include a $19 million after-tax benefit from notable items, compared with $31 million of after tax restructuring charges and special items for the first nine months of 2015. Excluding the impact of restructuring charges, special items and notable items, adjusted net income* increased $94 million from the first nine months of 2015.

The following table presents the significant components of our net income for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in millions)	2016	2015	Change	Percent	2016	2015	Change	Percent
Operating Data:								
Net interest income	$945	$856	$89	10%	$2,772	$2,532	$240	9%
Noninterest income	435	353	82	23	1,120	1,060	60	6
Total revenue	1,380	1,209	171	14	3,892	3,592	300	8
Provision for credit losses	86	76	10	13	267	211	56	27
Noninterest expense	867	798	69	9	2,505	2,449	56	2
Income before income tax expense	427	335	92	27	1,120	932	188	20
Income tax expense	130	115	15	13	357	313	44	14
Net income	297	220	77	35	763	619	144	23
Net income available to common stockholders	290	213	77	36	749	612	137	22
Return on average common equity	5.82 %	4.40 %	142 bps	—	5.08 %	4.23 %	85 bps	—
Return on average tangible common equity	8.58 %	6.60 %	198 bps	—	7.51 %	6.34 %	117 bps	—

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Net Interest Income

The following table presents the major components of net interest income and net interest margin:

(dollars in millions)	Three Months Ended September 30, 2016 Average Balances	Income/ Expense	Yields/ Rates	2015 Average Balances	Income/ Expense	Yields/ Rates	Change Average Balances	Yields/ Rates
Assets								
Interest-bearing cash and due from banks and deposits in banks	$2,121	$2	0.41 %	$1,322	$2	0.44 %	$799	(3) bps
Taxable investment securities	24,961	146	2.34	24,440	154	2.52	521	(18)
Non-taxable investment securities	8	—	2.60	9	—	2.60	(1)	—
Total investment securities	24,969	146	2.34	24,449	154	2.52	520	(18)
Commercial	35,986	290	3.14	32,832	243	2.89	3,154	25
Commercial real estate	9,905	71	2.82	8,406	54	2.50	1,499	32
Leases	3,813	23	2.43	3,936	24	2.45	(123)	(2)
Total commercial	49,704	384	3.02	45,174	321	2.78	4,530	24
Residential mortgages	14,155	127	3.59	12,470	117	3.76	1,685	(17)
Home equity loans	2,088	30	5.75	2,928	40	5.32	(840)	43
Home equity lines of credit	14,314	115	3.20	14,813	111	2.97	(499)	23
Home equity loans serviced by others	837	16	7.24	1,086	19	6.93	(249)	31
Home equity lines of credit serviced by others	256	2	2.47	425	3	2.30	(169)	17
Automobile	14,053	104	2.96	13,810	95	2.75	243	21
Student	5,750	73	5.10	3,530	45	5.01	2,220	9
Credit cards	1,623	46	11.24	1,616	44	10.95	7	29
Other retail	1,256	29	9.39	939	17	7.72	317	167
Total retail	54,332	542	3.98	51,617	491	3.79	2,715	19
Total loans and leases	104,036	926	3.52	96,791	812	3.32	7,245	20
Loans held for sale, at fair value	474	4	3.35	327	3	3.69	147	(34)
Other loans held for sale	69	1	6.41	128	3	6.96	(59)	(55)
Interest-earning assets	131,669	1,079	3.25	123,017	974	3.13	8,652	12
Allowance for loan and lease losses	(1,243)			(1,197)			(46)	
Goodwill	6,876			6,876			—	
Other noninterest-earning assets	7,097			6,407			690	
Total noninterest-earning assets	12,730			12,086			644	
Total assets	$144,399			$135,103			$9,296	
Liabilities and Stockholders' Equity								
Checking with interest	$19,997	$9	0.20 %	$16,934	$5	0.12 %	$3,063	8 bps
Money market and savings	46,376	37	0.31	44,572	33	0.29	1,804	2
Term deposits	12,806	25	0.76	12,730	27	0.84	76	(8)
Total interest-bearing deposits	79,179	71	0.36	74,236	65	0.34	4,943	2
Federal funds purchased and securities sold under agreements to repurchase [(1)]	910	1	0.24	2,880	4	0.52	(1,970)	(28)
Other short-term borrowed funds	2,564	10	1.54	5,062	17	1.32	(2,498)	22
Long-term borrowed funds	10,905	52	1.89	4,059	32	3.16	6,846	(127)
Total borrowed funds	14,379	63	1.72	12,001	53	1.75	2,378	(3)
Total interest-bearing liabilities	93,558	134	0.57	86,237	118	0.54	7,321	3

Demand deposits	27,467				26,754				713	
Other liabilities	3,317				2,604				713	
Total liabilities	124,342				115,595				8,747	
Stockholders' equity	20,057				19,508				549	
Total liabilities and stockholders' equity	$144,399				$135,103				$9,296	
Interest rate spread			2.68	%			2.59	%		9
Net interest income		$945				$856				
Net interest margin			2.84	%			2.76	%		8 bps
Memo: Total deposits (interest-bearing and demand)	$106,646	$71	0.27	%	$100,990	$65	0.25	%	$5,656	2 bps

[(1)] Balances are net of certain short-term receivables associated with reverse repurchase agreements. Interest expense includes the full cost of the repurchase agreements and certain hedging costs. The rate on federal funds purchased is elevated due to the impact from pay-fixed interest rate swaps that are scheduled to run off by the end of 2017. See "—Analysis of Financial Condition — September 30, 2016 Compared with December 31, 2015 — Derivatives" for further information.

Net interest income of $945 million increased $89 million, or 10%, compared to $856 million in third quarter 2015, driven by 7% average loan growth and an eight basis point improvement in net interest margin.
Compared to third quarter 2015, average interest-earning assets of $131.7 billion increased $8.7 billion, or 7%, from third quarter 2015, driven by a $4.5 billion increase in average commercial loans and leases, a $2.7 billion increase in average retail loans, and a $1.3 billion increase in average investments and interest-bearing cash and due from banks and deposits in banks. Commercial loan growth was driven by strength in commercial and commercial real estate. Retail loan growth was driven by strength in student, residential mortgage, automobile and other retail balances.
Average deposits of $106.6 billion increased $5.7 billion from third quarter 2015 with particular strength in savings, checking with interest and demand deposits. Total interest-bearing deposit costs increased two basis points compared to third quarter 2015. Checking with interest costs of 0.20% in 2016 compared with 0.12% in 2015, term deposit costs decreased to 0.76% in 2016 from 0.84% in 2015, and money market account and savings account costs increased to 0.31% from 0.29% in 2015.
Total borrowed funds of $14.4 billion increased $2.4 billion, or 20%, from third quarter 2015, reflecting continued incremental funding of earning asset growth. Total borrowed funds costs of $63 million increased $10 million from third quarter 2015 primarily due to issuance of long-term senior term debt and the reduction of securities sold under agreements to repurchase.
Net interest margin of 2.84% increased eight basis points compared to 2.76% in third quarter 2015 driven by improved loan yields reflecting both higher interest rates and continued improvement in loan mix. Margin results also reflected the benefit of modest rise in deposit costs relative to loan yields and lower pay-fixed swap expense. These benefits were partially offset by increased long-term borrowing costs, including the effect of additional senior debt issuances and a decline from investment securities yield tied to the drop in long-term interest rates. Average interest-earning asset yields of 3.25% increased 12 basis points from 3.13% in third quarter 2015.

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

(dollars in millions)	Nine Months Ended September 30, 2016 Average Balances	Income/ Expense	Yields/ Rates	2015 Average Balances	Income/ Expense	Yields/ Rates	Change Average Balances	Yields/ Rates
Assets								
Interest-bearing cash and due from banks and deposits in banks	$1,915	$6	0.40 %	$1,820	$4	0.26 %	$95	14 bps
Taxable investment securities	24,294	432	2.37	24,824	468	2.52	(530)	(15)
Non-taxable investment securities	9	—	2.60	10	—	2.60	(1)	—
Total investment securities	24,303	432	2.37	24,834	468	2.52	(531)	(15)
Commercial	35,212	832	3.10	32,536	704	2.85	2,676	25
Commercial real estate	9,555	200	2.75	8,020	155	2.54	1,535	21
Leases	3,864	71	2.44	3,909	74	2.51	(45)	(7)
Total commercial	48,631	1,103	2.98	44,465	933	2.77	4,166	21
Residential mortgages	13,705	375	3.65	12,104	342	3.77	1,601	(12)
Home equity loans	2,263	95	5.63	3,117	126	5.41	(854)	22
Home equity lines of credit	14,474	343	3.16	15,059	332	2.95	(585)	21
Home equity loans serviced by others	898	49	7.09	1,151	60	6.94	(253)	15
Home equity lines of credit serviced by others	298	5	2.21	479	9	2.45	(181)	(24)
Automobile	13,940	304	2.91	13,412	274	2.73	528	18
Student	5,338	202	5.06	3,064	116	5.06	2,274	—
Credit cards	1,608	135	11.24	1,620	133	10.99	(12)	25
Other retail	1,177	79	9.01	988	56	7.64	189	137
Total retail	53,701	1,587	3.95	50,994	1,448	3.80	2,707	15
Total loans and leases	102,332	2,690	3.49	95,459	2,381	3.32	6,873	17
Loans held for sale, at fair value	383	10	3.46	293	8	3.48	90	(2)
Other loans held for sale	185	6	4.53	122	7	7.27	63	(274)
Interest-earning assets	129,118	3,144	3.23	122,528	2,868	3.11	6,590	12
Allowance for loan and lease losses	(1,225)			(1,196)			(29)	
Goodwill	6,876			6,876			—	
Other noninterest-earning assets	7,026			6,447			579	
Total noninterest-earning assets	12,677			12,127			550	
Total assets	$141,795			$134,655			$7,140	
Liabilities and Stockholders' Equity								
Checking with interest	$19,001	$24	0.17 %	$16,515	$14	0.11 %	$2,486	6 bps
Money market and savings	45,319	98	0.29	43,082	87	0.27	2,237	2
Term deposits	12,530	72	0.77	12,498	76	0.81	32	(4)
Total interest-bearing deposits	76,850	194	0.34	72,095	177	0.33	4,755	1
Federal funds purchased and securities sold under agreements to repurchase [1]	922	2	0.22	3,947	13	0.44	(3,025)	(22)
Other short-term borrowed funds	3,133	33	1.38	6,169	51	1.09	(3,036)	29
Long-term borrowed funds	10,375	143	1.84	3,964	95	3.21	6,411	(137)
Total borrowed funds	14,430	178	1.63	14,080	159	1.50	350	13
Total interest-bearing liabilities	91,280	372	0.54	86,175	336	0.52	5,105	2
Demand deposits	27,362			26,313			1,049	
Other liabilities	3,191			2,654			537	

Total liabilities	121,833				115,142				6,691	
Stockholders’ equity	19,962				19,513				449	
Total liabilities and stockholders’ equity	$141,795				$134,655				$7,140	
Interest rate spread			2.69	%			2.59	%		
Net interest income		$2,772				$2,532				
Net interest margin			2.85	%			2.75	%		10 bps
Memo: Total deposits (interest-bearing and demand)	$104,212	$194	0.25	%	$98,408	$177	0.24	%	$5,804	1 bps

(1) Balances are net of certain short-term receivables associated with reverse repurchase agreements. Interest expense includes the full cost of the repurchase agreements and certain hedging costs. The rate on federal funds purchased is elevated due to the impact from pay-fixed interest rate swaps that are scheduled to run off by the end of 2017. See “—Analysis of Financial Condition — September 30, 2016 Compared with December 31, 2015 — Derivatives” for further information.

Net interest income of $2.8 billion in the first nine months of 2016 increased $240 million, or 9%, compared to $2.5 billion in the first nine months of 2015, reflecting 7% average loan growth and a ten basis point improvement in net interest margin.

Average interest-earning assets of $129.1 billion increased $6.6 billion, or 5%, from the first nine months of 2015, driven by a $4.2 billion increase in average commercial loans and leases and a $2.7 billion increase in average retail loans, partially offset by a $436 million decrease in average investments and interest-bearing cash and due from banks and deposits in banks. Commercial loan growth was driven by strength in commercial and commercial real estate. Retail loan growth was driven by strength in student, residential mortgage, and automobile loan balances.

Average deposits of $104.2 billion increased $5.8 billion from the first nine months of 2015 with particular strength in savings, checking with interest and demand deposits. Total interest-bearing deposit costs of $194 million increased $17 million, or 10%, from $177 million in the first nine months of 2015 and reflected a one basis point increase in interest-bearing deposit costs to 0.34%. Checking with interest costs of 0.17% in the first nine months of 2016 compared with 0.11% in the first nine months of 2015, term deposit costs decreased to 0.77% in the first nine months of 2016 from 0.81% in the first nine months of 2015, and money market account and savings account costs increased to 0.29% from 0.27% in the first nine months of 2015.

Total borrowed funds of $14.4 billion increased $350 million from the first nine months of 2015. Total borrowed funds costs of $178 million increased $19 million from the first nine months of 2015.

Net interest margin of 2.85% increased ten basis points compared to 2.75% in the first nine months of 2015 driven by improved loan yields reflecting both higher interest rates and continued improvement in loan mix. Results also reflected the benefit of relatively flat deposit costs. Average interest-earning asset yields of 3.23% increased 12 basis points from 3.11% in the first nine months of 2015.

Noninterest Income

The following table details the significant components of our noninterest income:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in millions)	2016	2015	Change	Percent	2016	2015	Change	Percent
Service charges and fees	$152	$145	$7	5 %	$446	$419	$27	6 %
Card fees	52	60	(8)	(13)	153	172	(19)	(11)
Trust and investment services fees	37	41	(4)	(10)	112	118	(6)	(5)
Capital markets fees	34	21	13	62	91	73	18	25
Foreign exchange and letter of credit fees	23	22	1	5	65	67	(2)	(3)
Mortgage banking fees	33	18	15	83	76	81	(5)	(6)
Bank-owned life insurance income	14	14	—	—	40	40	—	—
Securities gains, net	—	2	(2)	(100)	13	19	(6)	(32)
Other income [1]	90	30	60	200	124	71	53	75
Noninterest income	$435	$353	$82	23 %	$1,120	$1,060	$60	6 %

[1] Includes net securities impairment losses on securities available for sale recognized in earnings and other income.

Noninterest income of $435 million increased $82 million, or 23%, from $353 million in third quarter 2015, driven by the pre-tax $67 million benefit from notable items in other income. Excluding the impact of these items, adjusted noninterest income* increased $15 million or 4% largely reflecting higher mortgage banking fees, capital market fees, and service charges and fees partially offset by lower trust and investment services fees and other income. Service charges and fees increased $7 million, driven by both improved pricing and volume. Capital markets fees increased

$13 million, reflecting improved loan syndication volumes and continued broadening of our capabilities. Card fees decreased $8 million from third quarter 2015 levels, reflecting the impact of a reclass of card reward costs. Mortgage banking fees increased $15 million from third quarter 2015 levels, reflecting the benefit of higher application volumes and sale gains and spreads.

Noninterest income of $1.1 billion in the first nine months of 2016, increased $60 million, or 6%, compared to the first nine months of 2015 driven by the pre-tax $67 million benefit from notable items in other income. Excluding the impact of these items, adjusted noninterest income* decreased $7 million, or 1%, as the impact of lower mortgage banking fees, securities gains, card fees, trust and investment services fees, and foreign exchange and letter of credit fees were partially offset by increases in service charges and capital market fees. Service charges increased $27 million, driven by both improved pricing and volume. Capital market fees increased $18 million reflecting underlying business momentum and the impact of building capabilities. Card fees decreased $19 million from the first nine months of 2015 results, which were $20 million higher given the reclass of card reward costs. Mortgage banking fees decreased $5 million from higher 2015 levels that included higher MSR valuation gains.

Provision for Credit Losses

Provision for credit losses of $86 million increased $10 million, or 13%, from $76 million in third quarter 2015. Third quarter 2016 results reflected a $3 million reserve build, compared to a $1 million reserve build in third quarter 2015. Results also reflected an $8 million increase in net charge-offs as higher energy portfolio losses were partially offset by a reduction in retail.

Provision for credit losses of $267 million increased $56 million, compared to $211 million in the first nine months of 2015 and reflected a $24 million increase in net charge-offs due to higher commercial and retail losses. The first nine months of 2016 reflected a $36 million reserve build largely tied to loan growth compared to a $4 million reserve build in the first nine months of 2015.

The provision for loan and lease losses is the result of a detailed analysis performed to estimate an appropriate and adequate ALLL. The total provision for credit losses included the provision for loan and lease losses as well as the provision for unfunded commitments. Refer to "—Analysis of Financial Condition — Allowance for Credit Losses and Nonperforming Assets" for more information.

Noninterest Expense

The following table displays the significant components of our noninterest expense for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in millions)	2016	2015	Change	Percent	2016	2015	Change	Percent
Salaries and employee benefits	$432	$404	$28	7 %	$1,289	$1,234	$55	4 %
Outside services	102	89	13	15	279	267	12	4
Occupancy	78	75	3	4	230	245	(15)	(6)
Equipment expense	65	62	3	5	194	190	4	2
Amortization of software	46	35	11	31	126	108	18	17
Other operating expense	144	133	11	8	387	405	(18)	(4)
Noninterest expense	$867	$798	$69	9 %	$2,505	$2,449	$56	2 %

Noninterest expense of $867 million increased $69 million, or 9%, from $798 million in third quarter 2015 and included $36 million in notable items. Excluding this impact, adjusted noninterest expense* increased $33 million reflecting higher salaries and employee benefits, software amortization, equipment expense, outside services, and higher occupancy.

Noninterest expense of $2.5 billion in the first nine months of 2016 increased $56 million, or 2%, compared to the first nine months of 2015 as the impact of higher salaries and employee benefits, outside services and amortization of software were partially offset by lower occupancy and other operating expense. The first nine months of 2016 results reflected $36 million of notable items compared with $50 million of restructuring charges and special items for the nine months of 2015. Excluding the impact of restructuring charges, special items and notable items adjusted noninterest expense* increased $70 million.

Income Tax Expense

Income tax expense was $130 million and $115 million in the third quarter of 2016 and 2015, respectively. This resulted in an effective tax rate of 30.5% and 34.1% in the third quarter of 2016 and 2015, respectively. The decrease in the effective income tax rate from the third quarter of 2015 to the third quarter of 2016 was primarily attributable to

the impact of prior year federal and state tax credit recoveries and a reduction of non-deductible permanent expense items.
Income tax expense was $357 million and $313 million in the first nine months of 2016 and 2015, respectively. This resulted in an effective tax rate of 31.9% and 33.5% in the first nine months of 2016 and 2015, respectively. The decrease in the effective rate from 2015 to 2016 was primarily attributable to an increase in tax advantaged investing and the impact of prior year federal and state tax credit recoveries.
At September 30, 2016, we reported a net deferred tax liability of $994 million, compared to a $730 million liability at December 31, 2015. The increase in the net deferred tax liability was primarily attributable to the tax effect of net unrealized gains on securities and derivatives arising during the period and the tax effect of current year timing adjustments. For further discussion, see Note 10 “Income Taxes” to our unaudited interim Consolidated Financial Statements in Part I, Item 1 — Financial Statements, included in this report.

Business Segments

The following tables present certain financial data of our business segments:

	As of and for the Three Months Ended September 30, 2016			
(dollars in millions)	Consumer Banking	Commercial Banking	Other[4]	Consolidated
Net interest income (expense)	$621	$327	($3)	$945
Noninterest income	229	123	83	435
Total revenue	850	450	80	1,380
Noninterest expense	650	181	36	867
Profit before provision for credit losses	200	269	44	513
Provision for credit losses	57	19	10	86
Income before income tax expense (benefit)	143	250	34	427
Income tax expense (benefit)	51	88	(9)	130
Net income	$92	$162	$43	$297
Loans and leases and loans held for sale (period-end)	$56,230	$46,292	$3,471	$105,993
Average Balances:				
Total assets	$56,689	$47,902	$39,808	$144,399
Loans and leases and loans held for sale	55,376	46,611	2,592	104,579
Deposits	72,141	27,847	6,658	106,646
Interest-earning assets	55,423	46,666	29,580	131,669
Key Performance Metrics:				
Net interest margin [1]	4.46 %	2.79 %	NM	2.84 %
Efficiency ratio	76.46	40.21	NM	62.88
Average loans to average deposits ratio [2]	76.76	167.38	NM	98.06
Return on average total tangible assets [1]	0.64	1.35	NM	0.86
Return on average tangible common equity [1] [3]	7.04	12.50	NM	8.58

[1] Ratios for the period ended September 30, 2016 are presented on an annualized basis.

[2] Ratio includes loans and leases held for sale.

[3] Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 and then allocate that approximation to the segments based on economic capital.

[4] Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see "—Analysis of Financial Condition — September 30, 2016 Compared with December 31, 2015 — Loans and Leases-Non-Core Assets."

(dollars in millions)	As of and for the Nine Months Ended September 30, 2016			
	Consumer Banking	Commercial Banking	Other[4]	Consolidated
Net interest income	$1,804	$941	$27	$2,772
Noninterest income	656	344	120	1,120
Total revenue	2,460	1,285	147	3,892
Noninterest expense	1,898	554	53	2,505
Profit before provision for credit losses	562	731	94	1,387
Provision for credit losses	169	27	71	267
Income before income tax expense (benefit)	393	704	23	1,120
Income tax expense (benefit)	140	245	(28)	357
Net income	$253	$459	$51	$763
Loans and leases and loans held for sale (period-end)	$56,230	$46,292	$3,471	$105,993
Average Balances:				
Total assets	$55,825	$46,869	$39,101	$141,795
Loans and leases and loans held for sale	54,494	45,532	2,874	102,900
Deposits	71,627	25,938	6,647	104,212
Interest-earning assets	54,542	45,611	28,965	129,118
Key Performance Metrics:				
Net interest margin [1]	4.42 %	2.76 %	NM	2.85 %
Efficiency ratio	77.15	43.15	NM	64.36
Average loans to average deposits ratio [2]	76.08	175.54	NM	98.74
Return on average total tangible assets [1]	0.60	1.31	NM	0.75
Return on average tangible common equity [1] [3]	6.58	12.27	NM	7.51

[1] Ratios for the period ended September 30, 2016 are presented on an annualized basis.
[2] Ratio includes loans and leases held for sale.
[3] Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 and then allocate that approximation to the segments based on economic capital.
[4] Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see "—Analysis of Financial Condition — September 30, 2016 Compared with December 31, 2015 — Loans and Leases-Non-Core Assets."

We operate our business through two operating segments: Consumer Banking and Commercial Banking. Segment results are derived from our business-line profitability reporting systems by specifically attributing managed assets, liabilities, capital and their related revenues, provision for credit losses and expenses to the operating segments and Other. Residual assets, liabilities, capital and their related revenues, provision for credit losses and expenses are attributed to Other.
Other includes our treasury function, securities portfolio, wholesale funding activities, goodwill and goodwill impairment, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to Consumer Banking or Commercial Banking. Other also includes our non-core assets. Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of

geographic location, industry, product type or risk level. The non-core portfolio totaled $3.0 billion as of September 30, 2016, an increase of 26% from December 31, 2015. This increase was driven by the transfer of a $1.2 billion commercial lease and loan portfolio tied to legacy RBS aircraft leasing borrowers that we placed in runoff following a review of the Asset Finance business in third quarter 2016. This portfolio of largely investment-grade client aircraft leases do not meet go-forward business model strategic and risk-adjusted return parameters, and we plan to exit these non-strategic relationships. Given recent deterioration in aircraft values, along with the impact of exiting these client relationships, we believe the underlying residual value has been impaired. See "—Overview" for further discussion of the residual value impairment. The largest component of our retail non-core portfolio is our home equity products currently or formerly serviced by others portfolio.

Our capital levels are evaluated and managed centrally, however, capital is allocated to the operating segments to support evaluation of business performance. Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for common equity tier 1 and then allocate that approximation to the segments based on economic capital. Interest income and expense is determined based on the assets and liabilities managed by the business segment. Because funding and asset liability management is a central function, funds transfer-pricing methodologies are utilized to allocate a cost of funds used, or credit for the funds

provided, to all business segment assets, liabilities and capital, respectively, using a matched-funding concept. The residual effect on net interest income of asset/liability management, including the residual net interest income related to the funds transfer pricing process, is included in Other.

Provision for credit losses is allocated to each business segment based on actual net charge-offs that have been recognized by the business segment. The difference between the consolidated provision for credit losses and the business segments' net charge-offs is reflected in Other.

Noninterest income and expense directly managed by each business segment, including fees, service charges, salaries and benefits, and other direct revenues and costs are accounted for within each segment's financial results in a manner similar to our unaudited interim Consolidated Financial Statements. Occupancy costs are allocated based on utilization of facilities by the business segment. Noninterest expenses incurred by centrally managed operations or business segments that directly support another business segment's operations are charged to the applicable business segment based on its utilization of those services.

Income taxes are assessed to each business segment at a standard tax rate with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in Other.

Developing and applying methodologies used to allocate items among the business segments is a dynamic process. Accordingly, financial results may be revised periodically as management systems are enhanced, methods of evaluating performance or product lines change, or our organizational structure changes.

Consumer Banking

	As of and for the Three Months Ended September 30,				As of and for the Nine Months Ended September 30,			
(dollars in millions)	2016	2015	Change	Percent	2016	2015	Change	Percent
Net interest income	$621	$556	$65	12 %	$1,804	$1,633	$171	10 %
Noninterest income	229	235	(6)	(3)	656	684	(28)	(4)
Total revenue	850	791	59	7	2,460	2,317	143	6
Noninterest expense	650	623	27	4	1,898	1,832	66	4
Profit before provision for credit losses	200	168	32	19	562	485	77	16
Provision for credit losses	57	64	(7)	(11)	169	187	(18)	(10)
Income before income tax expense	143	104	39	38	393	298	95	32
Income tax expense	51	36	15	42	140	103	37	36
Net income	$92	$68	$24	35	$253	$195	$58	30
Loans and leases and loans held for sale (period-end)	$56,230	$52,468	$3,762	7	$56,230	$52,468	$3,762	7
Average Balances:								
Total assets	$56,689	$53,206	$3,483	7 %	$55,825	$52,438	$3,387	6 %
Loans and leases and loans held for sale	55,376	51,886	3,490	7	54,494	51,062	3,432	7
Deposits	72,141	70,527	1,614	2	71,627	69,347	2,280	3
Interest-earning assets	55,423	51,928	3,495	7	54,542	51,100	3,442	7
Key Performance Metrics:								

Net interest margin [1]	4.46	%	4.25	%	21 bps	—	4.42	%	4.27	%	15 bps	—
Efficiency ratio	76.46		78.72		(226) bps	—	77.15		79.07		(192) bps	—
Average loans to average deposits ratio [2]	76.76		73.57		319 bps	—	76.08		73.63		245 bps	—
Return on average total tangible assets [1]	0.64		0.51		13 bps	—	0.60		0.50		10 bps	—
Return on average tangible common equity [1] [3]	7.04		5.67		137 bps	—	6.58		5.55		103 bps	—

[1] Ratios for the periods ended September 30, 2016 and 2015 are presented on an annualized basis.
[2] Ratio includes loans and leases held for sale.
[3] Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 and then allocate that approximation to the segments based on economic capital.

Consumer Banking net income of $92 million increased $24 million, or 35%, from $68 million in third quarter 2015, as the benefit of a $59 million increase in revenue and a $7 million decrease in provision was partially offset by a $27 million increase in noninterest expense.

Net interest income of $621 million increased $65 million, or 12%, from third quarter 2015, driven by the benefit of a $3.5 billion increase in average loans, reflecting growth in student, mortgage, consumer unsecured loans and auto loans as well as improved loan and deposit spreads.

Noninterest income decreased $6 million, or 3%, from third quarter 2015 levels, as an increase in mortgage banking fees was more than offset by a reduction in card fees.
Noninterest expense of $650 million increased $27 million, or 4%, from $623 million in third quarter 2015, driven by higher salaries and benefits given continued investments to drive growth. Results also reflect an increase in outside services, driven by continued product extension and the impact of operational and remediation notable items as well as increased fraud costs and software amortization expense.
Provision for credit losses of $57 million decreased $7 million, or 11%, from $64 million in third quarter 2015, driven by lower net charge-offs in home equity.
Consumer Banking net income of $253 million increased $58 million, or 30%, from $195 million in the first nine months of 2015, as the benefit of a $143 million increase in revenue was partially offset by a $66 million increase in noninterest expense.
Net interest income of $1.8 billion increased $171 million, or 10% from the first nine months of 2015, driven by growth in student, mortgage and auto loans, improved loan yields which reflected the benefit of higher rates and improved mix as well as the benefit of growth in lower cost deposits.
Noninterest income decreased $28 million, or 4%, from the first nine months of 2015, driven by lower mortgage banking fees partially offset by higher service charges and fees.
Noninterest expense of $1.9 billion increased $66 million, or 4%, from the first nine months of 2015, driven by higher outside services expense, salaries and benefits and equipment expense.
Provision for credit losses of $169 million decreased $18 million, or 10%, from $187 million in the first nine months of 2015, driven by lower net charge-offs in home equity.
Commercial Banking

	As of and for the Three Months Ended September 30,				As of and for the Nine Months Ended September 30,			
(dollars in millions)	2016	2015	Change	Percent	2016	2015	Change	Percent
Net interest income	$327	$299	$28	9 %	$941	$861	$80	9 %
Noninterest income	123	100	23	23	344	308	36	12
Total revenue	450	399	51	13	1,285	1,169	116	10
Noninterest expense	181	175	6	3	554	529	25	5
Profit before provision for credit losses	269	224	45	20	731	640	91	14
Provision for credit losses	19	3	16	NM	27	(11)	38	NM
Income before income tax expense	250	221	29	13	704	651	53	8
Income tax expense	88	76	12	16	245	224	21	9
Net income	$162	$145	$17	12	$459	$427	$32	7
Loans and leases and loans held for sale (period-end)	$46,292	$42,090	$4,202	10	$46,292	$42,090	$4,202	10
Average Balances:								
Total assets	$47,902	$43,113	$4,789	11 %	$46,869	$42,451	$4,418	10 %
Loans and leases and loans held for sale	46,611	41,993	4,618	11	45,532	41,240	4,292	10
Deposits	27,847	24,604	3,243	13	25,938	23,094	2,844	12
Interest-earning assets	46,666	42,070	4,596	11	45,611	41,323	4,288	10
Key Performance Metrics:								
Net interest margin [1]	2.79 %	2.81 %	(2) bps	—	2.76 %	2.78 %	(2) bps	—

Efficiency ratio	40.21	43.75	(354) bps	—	43.15	45.26	(211) bps	—
Average loans to average deposits ratio [2]	167.38	170.68	(330) bps	—	175.54	178.58	(304) bps	—
Return on average total tangible assets [1]	1.35	1.34	1 bps	—	1.31	1.35	(4) bps	—
Return on average tangible common equity [1] [3]	12.50	12.24	26 bps	—	12.27	12.35	(8) bps	—

[1] Ratios for the periods ended September 30, 2016 and 2015 are presented on an annualized basis.

[2] Ratio includes loans and leases held for sale.

[3] Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 and then allocate that approximation to the segments based on economic capital.

Commercial Banking net income of $162 million increased $17 million, or 12%, from $145 million in third quarter 2015, as a $51 million increase in total revenue was partially offset by a $6 million increase in noninterest expense and higher provision for credit losses.
Net interest income of $327 million increased $28 million, or 9%, from $299 million in third quarter 2015, reflecting the benefit of a $4.6 billion increase in average loans and leases, improved deposit spreads and a $3.2 billion increase in average deposits.
Noninterest income of $123 million increased $23 million, or 23%, from $100 million in third quarter 2015, reflecting strength in capital markets fees, service charges and fees, and interest rate products (presented in other income).
Noninterest expense of $181 million increased $6 million, or 3%, from $175 million in third quarter 2015, largely reflecting an increase in salaries and employee benefits, FDIC insurance costs and amortization of software, partially offset by lower outside services expense.
Provision for credit losses of $19 million increased $16 million from third quarter 2015 levels, reflecting higher net charge-offs in the oil and gas portfolio.
Commercial Banking net income of $459 million increased $32 million, or 7%, from $427 million in the first nine months of 2015, as the benefit of a $116 million increase in total revenue was partially offset by a $25 million increase in noninterest expense and a $38 million increase in provision for credit losses.
Net interest income of $941 million increased $80 million, or 9%, from $861 million in the first nine months of 2015, reflecting a $4.3 billion increase in average loans and leases, improved deposit spreads, and a $2.8 billion increase in deposits.
Noninterest income of $344 million increased $36 million, or 12%, from the first nine months of 2015, reflecting strength in capital markets, service charges and fees and interest rate products.
Noninterest expense of $554 million increased $25 million, or 5%, from $529 million in the first nine months of 2015, reflecting increased salaries and employee benefits and FDIC insurance costs and amortization of software.
Provision for credit losses of $27 million increased $38 million from the first nine months of 2015, driven by higher losses in the commercial loan portfolio largely related to commodity-related credits.

Other

	As of and for the Three Months Ended September 30,				As of and for the Nine Months Ended September 30,			
(dollars in millions)	2016	2015	Change	Percent	2016	2015	Change	Percent
Net interest income	($3)	$1	($4)	NM	$27	$38	($11)	(29%)
Noninterest income	83	18	65	NM	120	68	52	76
Total revenue	80	19	61	NM	147	106	41	39
Noninterest expense	36	—	36	100	53	88	(35)	(40)
Profit before provision for credit losses	44	19	25	132	94	18	76	NM
Provision for credit losses	10	9	1	11	71	35	36	103
Income (loss) before income tax expense (benefit)	34	10	24	240	23	(17)	40	235
Income tax expense (benefit)	(9)	3	(12)	NM	(28)	(14)	(14)	(100)
Net income (loss)	$43	$7	$36	NM	$51	($3)	$54	NM
Loans and leases and loans held for sale (period-end)	$3,471	$3,293	$178	5	$3,471	$3,293	$178	5
Average Balances:								
Total assets	$39,808	$38,784	$1,024	3%	$39,101	$39,766	($665)	(2%)

Loans and leases and loans held for sale	2,592	3,367	(775)	(23)	2,874	3,572	(698)	(20)
Deposits	6,658	5,859	799	14	6,647	5,967	680	11
Interest-earning assets	29,580	29,019	561	2	28,965	30,105	(1,140)	(4)

Other net income of $43 million increased from $7 million in third quarter 2015, driven by the net impact of $23 million in notable items and an income tax benefit, offset by higher noninterest expense. Noninterest income of $83 million increased $65

million from third quarter 2015, largely reflecting the TDR Transaction gain. Noninterest expense increased $36 million, driven by the impact of other notable items.

Other net income of $51 million increased from a $3 million net loss in the first nine months of 2015, driven by the net impact of notable items, restructuring charges and special items, lower noninterest expense, and income tax benefit, offset by an increase in provision for credit losses.

As mentioned previously, Other includes the non-core portfolio. Non-core assets totaled $3.0 billion as of September 30, 2016, an increase of $614 million, or 26%, compared to December 31, 2015. Retail non-core loan balances of $1.6 billion decreased $499 million, or 23%, compared to December 31, 2015. Commercial non-core loans of $1.1 billion increased $978 million compared to December 31, 2015. This increase was due to a $1.2 billion lease portfolio tied to legacy RBS aircraft leasing borrowers that we placed in runoff following a review of the Asset Finance business in third quarter 2016. This portfolio of largely investment-grade client aircraft leases do not meet go-forward business model strategic and risk-adjusted return parameters, and we plan to exit these non-strategic relationships. See "—Overview" for further discussion of the residual value impairment. Given recent deterioration in aircraft values, along with the impact of exiting these client relationships, we believe the underlying residual value has been impaired.

Analysis of Financial Condition — September 30, 2016 Compared with December 31, 2015

Loans and Leases

Our loans and leases are disclosed in portfolio segments and classes. Our loan and lease portfolio segments are commercial and retail. The classes of loans and leases are: commercial, commercial real estate, leases, residential mortgages, home equity loans, home equity lines of credit, home equity loans serviced by others, home equity lines of credit serviced by others, automobile, student, credit cards and other retail. Our SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. We now service a portion of this portfolio internally. The following table shows the composition of loans and leases, including non-core loans, as of:

(dollars in millions)	September 30, 2016	December 31, 2015	Change	Percent
Commercial	$36,449	$33,264	$3,185	10 %
Commercial real estate	10,152	8,971	1,181	13
Leases	3,788	3,979	(191)	(5)
Total commercial	50,389			