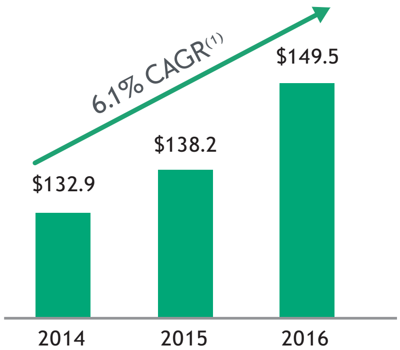
Building a better bank each and every day

2016 ANNUAL REPORT

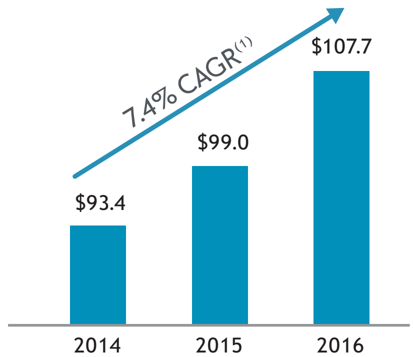
Citizens Financial Group, Inc.™

Building a Better Bank Each and Every Day

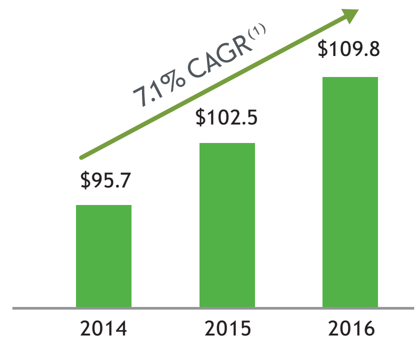
Total Assets
$s in billions



Total Loans and Leases
$s in billions

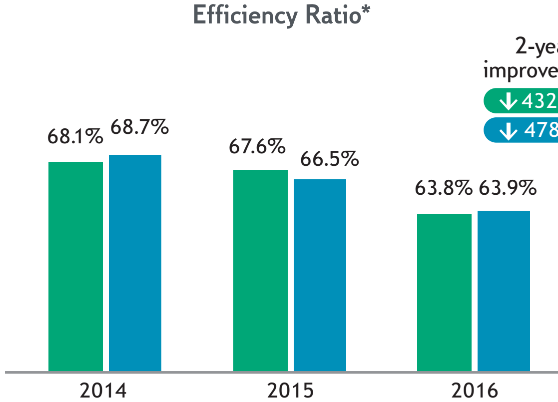


Total Deposits
$s in billions

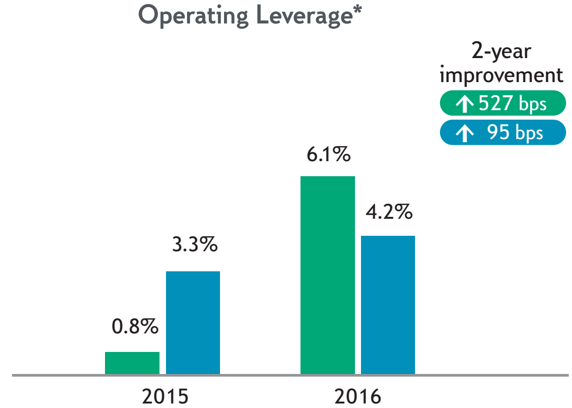


Enhancing our efficiency and driving positive operating leverage

Efficiency Ratio*

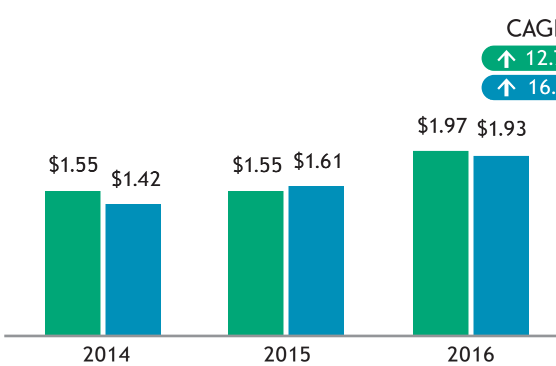


Operating Leverage*

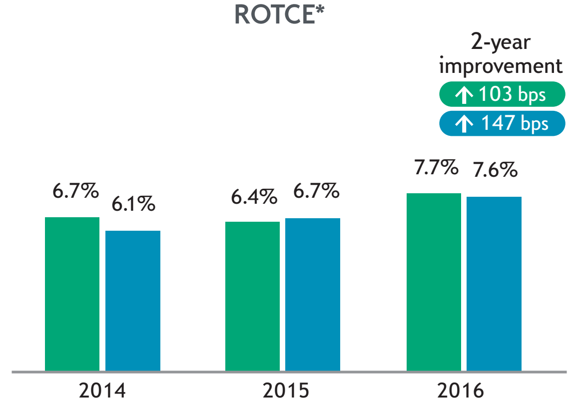


Improving earnings per share; increasing return of capital

Diluted Earnings Per Share



ROTCE*



GAAP Adjusted*

1) CAGR is compound annual growth rate.

*Please see important information on Key Performance Metrics and Non-GAAP Financial Measures on the pages following the 10-K for an explanation of our use of these metrics and non-GAAP financial measures and their reconciliation to GAAP financial measures. "Adjusted" results exclude restructuring charges, special items and/or notable items, as applicable. Where there is a reference to an "Adjusted" result in a paragraph, all measures that follow that "Adjusted" result are also "Adjusted" when applicable. Where there is a reference to an operating segment's ROTCE, the segment is allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements.

TO OUR SHAREHOLDERS,

Citizens is dedicated to improving the financial well-being of those we serve. By combining deep expertise with a personal touch, we help our customers pursue their goals by delivering ideas, advice and services that match their needs throughout their life's journey. It's a privilege to walk this path with our customers, and a right we must earn every day. By continuously putting our customers first, we help families flourish, businesses become stronger, local economies grow and communities prosper.

We have set a course at Citizens to become a top performing bank that delivers well for all stakeholders. To achieve this we must keep building the financial strength and capacity to thrive over the long term in a rapidly evolving financial services landscape. That means executing a forward-looking strategy that combines financial discipline, operational excellence and continuous improvement with an unwavering commitment to our customers.

I'm pleased to report that our approach is working.

In 2016, our first full year as an independent bank, we performed well for all stakeholders, executing on our strategic initiatives, delivering improved financial performance and doing more for customers, colleagues and the communities we serve. We also set the stage to deliver continued growth and progress in 2017 and beyond by refreshing our long-term vision and investing in new technologies and ways of banking.

Executing well in 2016

In 2016, we reported net income of $1.04 billion, compared with $840 million in 2015, a 24 percent increase, with diluted earnings per share up 27 percent. On an Adjusted basis*, which excludes certain notable items and restructuring charges, net income totaled $1.03 billion, up 18 percent from 2015, while Adjusted diluted earnings per share were up 20 percent from the year prior.

We continue to put our strong capital position to work by growing loans and deposits and our customer base. Average loans grew by 8 percent, and average deposits by 6 percent. We also continue to redeploy our loan portfolio to more attractive areas, which has led to steady improvement in our net interest margin despite headwinds from lower long-term rates, which persisted for much of the year.

We remain keenly focused on delivering on our strategic growth and efficiency initiatives to help ensure we are building a better bank each and every day. Strong execution and discipline drove Adjusted positive operating leverage* of 4.2 percent in 2016, and a 2.6 percent improvement in our efficiency ratio to 63.9 percent.

4.2%

Adjusted Operating Leverage*

vs.

~1.3%

for peer average(1)

The net result of these efforts was further improvement in our Adjusted return on average tangible common equity (ROTCE*) during 2016. We grew this key measure of profitability to 7.6 percent in 2016, up from 6.7 percent in 2015, reaching 8.4 percent in the fourth quarter.

We've also continued to focus on returning capital to shareholders during 2016. Following our successful CCAR outcome, we returned $671 million to common shareholders in common dividends and share repurchases.

1) CFG banking peer group comprises BBT, CMA, FITB, KEY, MTB, PNC, RF, STI and USB.

In Consumer Banking, solid customer household, deposit and loan growth — combined with strong credit quality and well-managed expenses — helped us deliver a 32 percent increase in earnings from the previous year. This was paced by strong growth in student, personal unsecured and mortgage loans. We continue to be a leader in offering borrowers the opportunity to refinance high-cost student debt, originating $1.4 billion in Education Refinance loans in 2016. We also increased mortgage origination volumes by 36 percent, compared to an average industry growth rate of about 13 percent, as we grew our mortgage loan officer count by 22 percent.

We took a number of steps during 2016 to better position the Consumer Bank to serve our customers and meet their needs. These include hiring more wealth management advisors and beginning to transform our branch network to a modern, advice-based model. We also introduced a new Platinum Status for customers who maintain higher balances and want more account features, fewer fees, better rates and additional products and services.

Commercial Banking also performed well during 2016 with a ROTCE* of 12.4 percent. By maintaining focus on delivering great ideas, deep expertise and tailored solutions, the Commercial Bank grew revenue by 11 percent in 2016, with average loan growth of 10 percent and deposit growth of 14 percent. We also showed continued strength in loan syndications, reaching $9.7 billion in 2016, with 122 transactions as lead left or joint lead arranger — increases of 26 percent and 22 percent, respectively, versus 2015.

Commercial Banking continues to invest to broaden its capabilities. We launched Citizens Capital Markets, Inc., which expanded our product suite to include strategic advice for mergers and acquisitions, corporate valuations and capital raises. We also introduced new interest rate products, expanded our asset-based and restructuring capabilities and continued to improve our Treasury Solutions products and began investing in a new commercial online platform to improve our cash management and other offerings.

Reflective of our overall progress, in 2016 we were named to the Fortune 500, *Fortune Magazine*'s annual ranking of America's leading corporations. We are proud of this milestone in our journey as a fully independent public company.

Investing for the Long Term

The way our customers live their lives — and view their financial partners — is constantly changing. As they increasingly gain comfort with transacting via digital channels, their preferences for how they manage their businesses and finances are changing. We are incorporating these dynamics into our strategy, and are investing across the bank to meet customer expectations and position ourselves for long-term value creation.

39%
Total Shareholder Return
8%
above peer average

In digital technologies we are building next-generation experiences in key areas, including mobile, wealth advisory, lending and commercial services. We are focused on delivering a more consistent and integrated customer experience across all of our distribution channels. And to ensure that the technologies we deploy are relevant and valuable to our customers, we have invested in advanced analytical tools that give us real insight into each customer's needs.

Another way we have advanced our digital transformation is by looking outside the bank for opportunities to harness leading-edge innovation and further enhance the customer experience. The digital investment advisory and business banking capabilities we announced in 2016 through Fintech partnerships are great examples of combining leading-edge platforms with our insight and scale to more quickly and effectively address customer needs. We also have strategies in place to take advantage of further technology innovations, such as leveraging open applications and moving to a cloud-based infrastructure.

Our commitment to the future goes beyond great products and platforms. Having a well-aligned, collaborative and customer-centric workforce is critical to delivering on our promises. We've been investing for the future here as well, implementing new ways of working and building the culture that will enable us to deliver the best possible customer experience and outpace our competitors. We took a step toward that in 2016 when we broke ground on our new corporate campus in Johnston, Rhode Island. This vibrant and environmentally friendly facility will bring together 3,000 Citizens colleagues now spread across various locations, encouraging greater collaboration while providing significant benefits to the local community.

To sum up, we believe we are making the right moves to position Citizens for sustained success. And while we are entering 2017 well-positioned to capitalize on an improving economic and interest rate environment, we will continue to focus on taking care of customers, instilling a mindset of continuous improvement, and executing our plan — in short, the things we can control.

A Committed Team

We continue to invest in our people, who delivered a great effort in 2016 and real progress in how we run the bank. We are attracting new talent, investing in leadership development and skills training and promoting colleagues to advance their careers.

At the senior leader level we recruited John F. Woods to serve as chief financial officer and Mary Ellen Baker to lead our Business Services organization. Each brings to Citizens more than 30 years of broad-based banking experience. We also promoted Malcolm Griggs to be our chief risk officer.

It's essential to provide colleagues increasing opportunities to learn, grow and build meaningful careers. In 2016, more than 2,600 colleagues took on new roles within the company, many of whom made use of our expanding range of training and self-assessment tools. We also continued to invest in developing strong leaders, with nearly 1,800 managers participating in a range of leadership development programs during the year.

Our efforts to make Citizens an even better place to work are paying off. Just as our financial results improved significantly in 2016, so did our Organizational Health Index score. This shows that when the entire Citizens team is engaged and focused on the same vision and goals we can operate more effectively and deliver more for our customers and stakeholders.

Strengthening our communities continues to be a hallmark of our culture. In 2016, Citizens colleagues volunteered more than 89,000 hours with community groups, a 27 percent increase over 2015. Citizens colleagues last year also continued to play a key role in bringing others together to build local capabilities, share skills and make a direct impact on people and communities. I continue to be truly impressed with the depth of commitment shown by the nearly 18,000-strong Citizens team.

We are grateful to you, our shareholders, as well as our valued customers for your support over the past year and for the trust and confidence you place in us. I would also like to thank our board of directors for their ongoing service and valuable counsel.

In closing, I believe we are better positioned than ever to achieve our goal of building a top-performing bank. We have the right strategy, vision, capabilities and people to deliver on our commitments. And by focusing on running the bank better every day, we will continue to earn the right to help our customers realize their goals and achieve their potential.

Kind regards,

Bruce Van Saun

BRUCE VAN SAUN
Chairman and Chief Executive Officer
Citizens Financial Group, Inc.

Consumer Banking

Building a Better Set of Capabilities to Serve Customer Needs

In 2016, we continued helping our customers achieve their financial goals by providing services and solutions that help them plan for their future and manage their day-to-day needs.

Average loans ▲ 7%

Net income ▲ 32%

We expanded our financial consultant group to assist customers as they manage their household finances, increased our checking and savings options and improved how we meet customer expectations across our channels. We also delivered more residential mortgages to aspiring home owners, provided product financing and unsecured loan offerings to a wider range of customers and helped a growing number of small business owners achieve their goals. We proudly assisted an increasing number of customers finance higher education and helped more customers build and grow their wealth.

In 2016, we continued to enhance our products and services to provide more customer-centric offerings, including:

Evolving our branch network and outreach efforts — modernizing our retail branch network to better meet customers' advisory needs, in conjunction with our Citizens Checkup program designed to assist customers with needs-based financial reviews to build and deepen relationships.

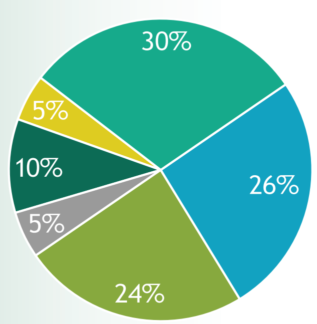
Rolled out targeted lending products — including the introduction of enhanced installment and unsecured loans.

Announced SigFig Fintech partnership — a digital investment advice platform that allows customers to build and manage portfolios, while serving as an additional highly efficient channel to our investment advisory businesses.

Introduced Fundation collaboration — digitally enabled small business financing solutions that simplify the application process, streamline underwriting and allow us to serve more clients efficiently.

Leveraged our market-leading Education Refinance product — our Education Refinance product attracts a younger demographic and allows us to offer complementary products and services to assist these customers as they pay off debt, accumulate savings and plan for their financial futures.

2016 Consumer Banking Loans[1]
$54.7 billion



Home Equity
Auto
Mortgage
Business Banking
Student
Other[2]

Our Capabilities Include

PERSONAL BANKING

- Certificates of Deposit
- Checking
- IRAs
- Money Market Accounts
- Savings
- ATM Network
- Online & Mobile Banking
- YourPlace Banking™
- 24/7 Contact Center

BORROWING OPTIONS

- Mortgage
- Home Equity
- Indirect Auto
- Student
- Credit Cards
- Unsecured and installment

WEALTH MANAGEMENT

- Investment services
- Premier banking
- Private banking
- Trust services

BUSINESS BANKING

- Business lending
- Transactions and cash
- Online services

~400,000
Citizens Checkup appointments to assess customer financial needs

~75,550
Premier customers with dedicated advisory support

TOP 5[3]
Business Banking ranking in customer experience

$2.5 billion
Education Refinance loan originations in 2015 + 2016

1) Average loan balances for FY 2016; excludes loans held for sale.
2) Other includes Credit Card, Other consumer unsecured, RV, Marine and other items.
3) Source: Greenwich Associates. Survey period from October 1, 2015 to September 30, 2016.

Commercial Banking

Driving Client Solutions through Thought Leadership

Average loans ▲ 10%

Net income ▲ 9%

In 2016, we continued to enhance and extend our capabilities to include a broader range of advisory services and robust product offerings to help our corporate clients meet their strategic goals and financing needs.

We made great progress in building and deepening client relationships by evolving our operating, coverage and credit models, enhancing our ability to deliver more timely solutions for clients. This included making client onboarding more efficient, improving core cash management and data-transfer capabilities and streamlining our credit processes. We continue to take a holistic approach towards helping clients achieve their goals throughout the business lifecycle.

Our experience and expertise position us well to deliver thought leadership to clients across a range of industries. Nimble and results-oriented, we provide solutions that help clients harness opportunities to drive value and growth.

In 2016, we continued to enhance our suite of product offerings:

Augmented Treasury Solutions offerings — continued investments in our Treasury Solutions platform as part of a multi-year plan have strengthened our capabilities, expanded our cash management product suite and further improved our client service.

Delivered more robust FX and interest rate products capabilities — introduced a new interest rate products and foreign exchange platform that has streamlined execution and improved risk monitoring and client delivery.

Introduced additional specialized Industry Verticals advisory services — continued to add experienced bankers with product and industry expertise across a range of key industries, including sectors such as technology, healthcare and energy.

Provided strategic market insights — we continue to offer our customers compelling, data-driven analysis of business opportunities, including providing our Middle Market M&A and Healthcare Outlooks to help customers anticipate and gain insights about market trends.

Continued to expand our capital markets capabilities — we added additional corporate finance industry expertise in consumer and retail as we enhanced our customized offerings and advisory services to serve customer needs in an increasingly complex environment.

Our Capabilities Include

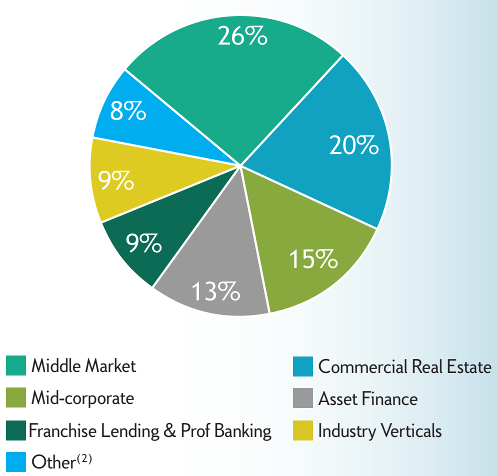
CORPORATE BANKING
- Asset-based lending
- Equipment leasing
- Franchisee finance
- Healthcare banking
- Leveraged finance
- Oil & gas banking
- Not-for-profit banking
- Technology banking

GLOBAL & CAPITAL MARKETS
- Corporate finance
- Debt capital markets
- M&A and Equity advisory services
- Foreign exchange
- High yield bonds
- Interest rate products
- Loan sales & trading
- Private placements
- Sponsor finance

COMMERCIAL REAL ESTATE
- Construction finance
- Commercial mortgages
- REIT finance

TREASURY SOLUTIONS
- Cash management
- Commercial credit cards & payment services
- Purchasing cards
- Trade finance

2016 Commercial Banking Loans[1]
$45.8 billion



26% Increase in loan-syndication volume[3]

#7 Overall Middle Market Bookrunner[4]

42% Increase in capital markets fees

19% Increase in interest rate hedging transactions

1) Average loan balances for FY 2016; excludes loans held for sale.
2) Other includes Business Capital, Government and Professional Banking, Corporate Finance & Global Markets, Treasury Solutions, Corporate and Banking Admin.
3) Increase in volume of agented deals as lead left or joint-lead arranger.
4) Thomson Reuters LPC, FY16 data as of 12/31/16 based on number of deals for Overall Middle Market (defined as Borrower Revenues <$500MM and deal size <$500MM).

Improving Capabilities to Build a Better Bank

Improved Consumer Products and Capabilities

Expanded Data & Analytics

Data intelligence allows us to offer personalized products and services to new and existing customers. In 2016, we amplified our direct digital and mail marketing, which drove a 35% increase in response rates.

Key investments in data gathering and analytics provide our bankers and financial consultants the detailed customer information they need to act as trusted advisors. Leveraging these improved resources better positions us to offer the right service or product at the right time through the channel of our customer's choice, which contributes to higher customer satisfaction, along with higher revenue and improved efficiency.

Improved Mass Affluent and Affluent Offerings

We introduced a new program, Platinum Status, which offers customers who maintain higher balances increased personalization and value with preferred checking, deposit and lending products and services. Platinum Status customers also enjoy streamlined fee structures and attractive rates for products in conjunction with a dedicated support center.

We elevated our ability to deliver advisory expertise to affluent clients by improving the Premier program platform. We strengthened our team-based advisory services model, which dedicates a relationship manager and financial consultant, among others, to provide customers comprehensive advice based upon their longer-term needs and priorities. Additionally, we launched enhancements that support customers' retirement goals, including our Checkup Retirement program and a proprietary multi-step approach that includes continuing advice and support.

Upgraded Commercial Platform and Client Service

Established Broker-Dealer

The launch of Citizens Capital Markets, Inc. expands our advisory capabilities and delivers improved client service. This capital and global markets platform allows us to offer comprehensive strategic advice for M&A, capital structure, valuation and public and private capital raises with enhanced efficiency and execution.

These capabilities allow us to improve our client reach and to retain a greater percentage of deal fees than the previous fee-sharing relationship with RBS. We are better positioned to capture more customer share of wallet and further augment our strong relationships.

Enhanced Services, Technology & Talent

New interest rate products and expanded cash management, asset-based lending and restructuring capabilities are part of our expanded solution set for customers. We also continue to streamline and enhance data tools for relationship managers that help us attract and retain customers on our commercial banking platform, while the recent introduction of a dedicated, centralized team enables faster response times to customer inquiries — along with better outcomes.

We strive to attract and retain top banking professionals devoted to always putting the customer first. In 2016, we continued to augment our deep talent bench by hiring sector-specific experts across corporate finance, capital markets, sales and trading and leveraged finance.

Building a Better Bank: Awards and Recognition

Named to the Fortune 500
Fortune Magazine's annual ranking of America's leading corporations(1)

Earned "strong" customer reputation ranking in American Banker/Reputation Institute Survey(2)

Best overall Investor Relations (Mid-Cap) — recognized for comprehensive disclosure(3)

Small Business & Mobile Banking Excellence

Greenwich excellence award for Small Business Banking Accuracy in Cash Management Operations(4)

2016 Javelin Mobile Banking Leader in App Rating category(5)

2016 JAVELIN Mobile Banking Leader

High Commercial Customer Satisfaction

93%

Barlow overall customer satisfaction(6)

97%

Relationship Manager satisfaction(6)

BARLOW RESEARCH ASSOCIATES, INC.
VOICE OF THE BUSINESS CUSTOMER

1) *Fortune Magazine*.
2) 2016 *American Banker* Reputation Institute customer reputation ranking.
3) 2016 *IR Magazine* award for best overall Mid-Cap Investor Relations.
4) Greenwich Associates excellence award for services performed in 2015.
5) Javelin Strategy & Research.
6) Barlow Research 2015 Voice of the Customer Survey (Top 2 Box score).

Building a Better Bank for Colleagues

In 2016:

Strengthened our culture and organizational health: Our colleagues told us that our efforts to evolve and enhance our culture are making an impact. In 2016, our Organizational Health Index improved by six points versus 2015. We also showed consistent improvement across each category since our first enterprise-wide survey in 2014.

Provided more opportunities to build capabilities and careers: In 2016, more than 2,600 colleagues took on new roles, while employees completed almost 300,000 training hours to help develop their skills. We also launched myCAREER, a comprehensive program with an extensive suite of development resources to help colleagues learn and grow. These are two examples of the many ways we are providing opportunities for colleagues to develop new capabilities and build meaningful careers.

Improved the quality of our leadership: We believe that strong leaders set the tone in the organization and create the environment necessary to enable our colleagues to thrive; therefore we continue to invest in developing strong leaders. Nearly 1,800 leaders have participated in a range of leadership-development programs.

Recognized colleague efforts: We recognized more colleagues through our company-wide, values-based recognition program, Credo Awards. More than 7,500 colleagues received special recognition, an increase of 22% versus 2015. And we provided stock awards to ten specially selected colleagues as part of this program.

Building a Better Bank for Communities

Our strong commitment to making the communities we serve better places to live, work and play in is a key aspect of our heritage.

In 2016:

CFG employees performed more than **89,000 hours of volunteer service** and served on more than 550 community boards and committees across our footprint.

Gave more than $1.3 million to support the efforts to help citizens in our communities become financially literate; those efforts reached more than 220,000 people.

Supported the charitable efforts of 444 organizations, including giving 3.6 million meals to the hungry.

Provided more than **$550 million in loans and investments to support community and affordable housing development,** including $23 million to support the efforts of Solider On, a non-profit that provides transitional and permanent housing for veterans.

Executive Committee

Bruce Van Saun
Chairman and
Chief Executive Officer

Mary Ellen Baker
Head of Business Services

Brad L. Conner
Vice Chairman
Consumer Banking

Stephen T. Gannon
General Counsel and
Chief Legal Officer

Malcolm Griggs
Chief Risk Officer

Beth Johnson
Chief Marketing Officer and
Head of Consumer Strategy

Susan LaMonica
Chief Human
Resources Officer

Donald H. McCree
Vice Chairman
Commercial Banking

Brian O'Connell
Head of
Technology Services

John F. Woods(1)
Chief Financial Officer

Board of Directors

Bruce Van Saun
Chairman and CEO
Citizens Financial Group, Inc.

Mark Casady
Former Chairman and CEO
LPL Financial Holdings, Inc.

Christine Cumming
Former First Vice President
and COO, Federal Reserve
Bank of New York

Anthony Di Iorio
Retired CFO
Deutsche Bank AG

William P. Hankowsky
Chairman, President and CEO
Liberty Property Trust

Howard W. Hanna III
Chairman and CEO
Hanna Holdings, Inc.

Leo I. Higdon
Past President of
Connecticut College

Charles J. Koch
Former Chairman, President
and CEO, Charter One Bank

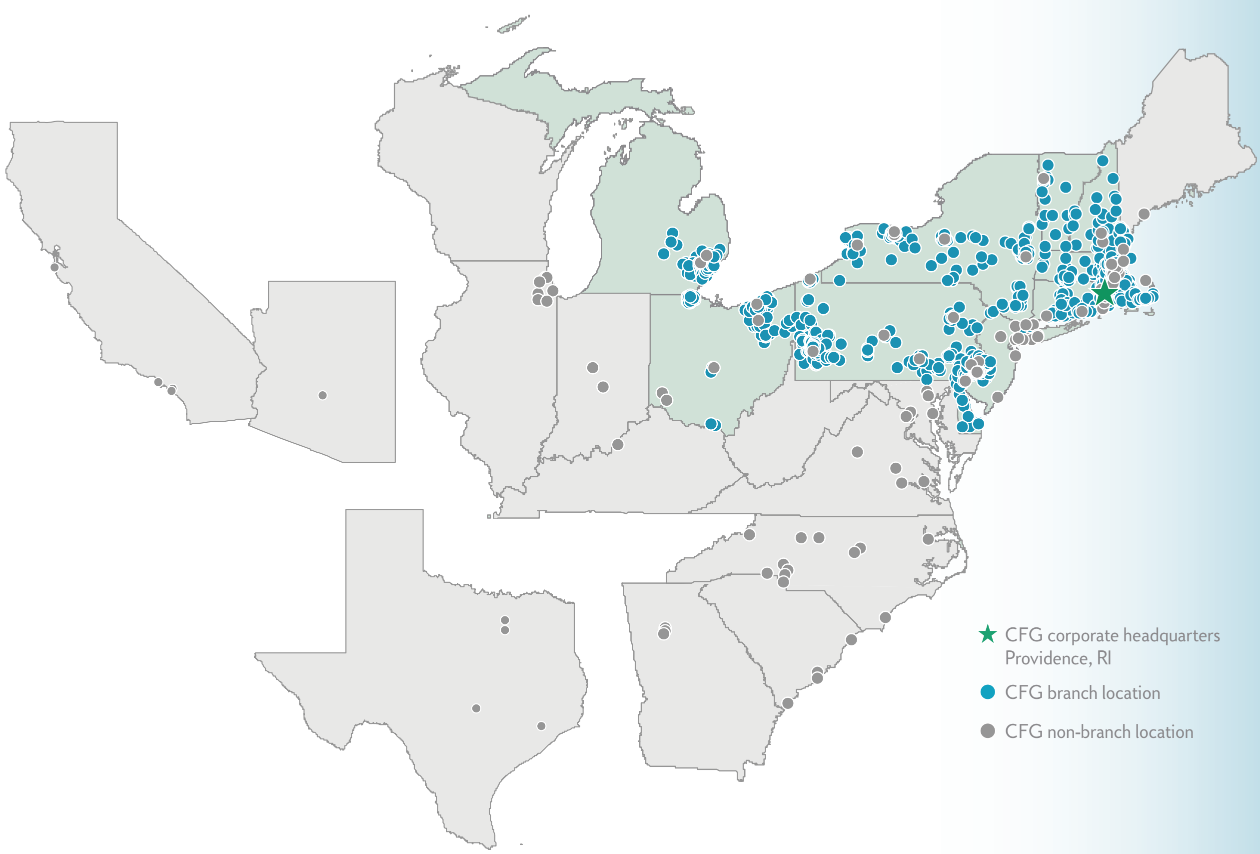
Arthur F. Ryan
Retired Chairman, CEO
and President
Prudential Financial, Inc.

Shivan S. Subramaniam
Chairman, FM Global

Wendy A. Watson
Former Executive Vice
President, Global Services
State Street Bank & Trust

Marita Zuraitis
Director, President and CEO
The Horace Mann Companies

Where We Operate in the United States



1) John F. Woods began service as CFO effective March 4, 2017. John Fawcett served as Interim CFO from December 17, 2016 to March 3, 2017.

2016 Form 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended
December 31, 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)

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

Title of each class	Name of each exchange on which registered
Common stock, $0.01 par value per share	New York Stock Exchange

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

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

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

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

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

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

Large accelerated filer	[X]	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 [X] No

The aggregate market value of voting stock held by nonaffiliates of the Registrant was $10,569,026,814 (based on the June 30, 2016 closing price of Citizens Financial Group, Inc. common shares of $19.98 as reported on the New York Stock Exchange). There were 509,107,893 shares of Registrant's common stock ($0.01 par value) outstanding on February 1, 2017.

Documents incorporated by reference

Portions of Citizens Financial Group, Inc.'s proxy statement to be filed with the United States Securities and Exchange Commission in connection with Citizens Financial Group, Inc.'s 2017 annual meeting of stockholders (the "Proxy Statement") are incorporated by reference into Part III hereof. Such Proxy Statement will be filed within 120 days of Citizens Financial Group, Inc.'s fiscal year ended December 31, 2016.

Table of Contents

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
Board or Board of Directors	The Board of Directors of Citizens Financial Group, Inc.
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
CCMI	Citizens Capital Markets, Inc.
CCO	Chief Credit Officer
CET1	Common Equity Tier 1
CEO	Chief Executive Officer
CFPB	Consumer Financial Protection Bureau
CFTC	Commodity Futures Trading Commission
Chicago Divestiture	June 20, 2014 sale of certain assets and liabilities associated with Chicago-area retail branches, small business relationships and select middle market relationships to U.S. Bancorp
Citizens or CFG or the Company	Citizens Financial Group, Inc. and its Subsidiaries
CLTV	Combined Loan-to-Value
CLO	Collateralized Loan Obligation
CMO	Collateralized Mortgage Obligation
CRA	Community Reinvestment Act
CRE	Commercial Real Estate
CRO	Chief Risk Officer
CSA	Credit Support Annex
DFAST	Dodd-Frank Act Stress Test
DIF	Deposit Insurance Fund
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DTA	Deferred Tax Assets
EPS	Earnings Per Share
ESPP	Employee Stock Purchase Program
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
FFIEC	Federal Financial Institutions Examination Council
FHLB	Federal Home Loan Bank

FICO	Fair Isaac Corporation (credit rating)
FINRA	Financial Industry Regulation Authority
FRB or the Federal Reserve	Federal Reserve Bank
FRBG	Federal Reserve Board of Governors
Freddie Mac (FHLMC)	Federal Home Loan Mortgage Corporation
FTE	Full Time Equivalent
FTP	Funds Transfer Pricing
GAAP	Accounting Principles Generally Accepted in the United States of America
GDP	Gross Domestic Product
GLBA	Gramm-Leach-Bliley Act of 1999
Ginnie Mae (GNMA)	Government National Mortgage Association
HELOC	Home Equity Line of Credit
HTM	Held To Maturity
IPO	Initial Public Offering
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
Mid-Atlantic	District of Columbia, Delaware, Maryland, New Jersey, New York, Pennsylvania, Virginia, and West Virginia
Midwest	Illinois, Indiana, Michigan, and Ohio
MSA	Metropolitan Statistical Area
MSR	Mortgage Servicing Right
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
NSFR	Net Stable Funding Ratio
NYSE	New York Stock Exchange
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income
OFAC	Office of Foreign Assets Control
OTC	Over the Counter
Parent Company	Citizens Financial Group, Inc. (the Parent Company of Citizens Bank of Pennsylvania, Citizens Bank, N.A. and other subsidiaries)
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
REITs	Real Estate Investment Trusts
ROTCE	Return on Average Tangible Common Equity
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
VIE	Variable Interest Entities

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," "potentially," "probably," "projects," "outlook" or similar expressions or future conditional verbs such as "may," "will," "should," "would," and "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 Part I, Item 1A, included in this report.

PART I

ITEM 1. BUSINESS

Headquartered in Providence, Rhode Island with $149.5 billion of total assets as of December 31, 2016, Citizens Financial Group, Inc. was the 12th largest retail bank holding company in the United States.[1] Our approximately 17,600 colleagues strive to meet the financial needs of customers and prospects through approximately 1,200 branches operating in an 11-state banking footprint across the New England, Mid-Atlantic and Midwest regions and through our online, telephone and mobile banking platforms. Our branch banking footprint contained approximately 30 million households[2] and 4 million businesses[3] as of December 31, 2016. We also maintain more than 100 retail and commercial non-branch offices located in our branch banking footprint and in other states and the District of Columbia, which are largely contiguous with our footprint. We deliver a comprehensive range of retail and commercial banking products and services to more than five million individuals, institutions and companies. As of December 31, 2016, approximately 70% of our loans were to customers in our footprint and in the five contiguous states where we maintain offices.

Our primary subsidiaries are 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.

Our History

Our history dates to High Street Bank, founded in 1828, which established Citizens Savings Bank in 1871. Citizens Savings Bank acquired a controlling interest in its founder by the 1940s, renaming the entity Citizens Trust Company. By 1981, we had grown to 29 branches in Rhode Island with approximately $1.0 billion of assets, and in 1988 we became a wholly-owned subsidiary of RBS. During the following two decades, we grew substantially through a series of more than 25 strategic bank acquisitions, which greatly expanded our footprint throughout New England and into the Mid-Atlantic and the Midwest, transforming us from a local retail bank into one of the largest U.S. bank holding companies.

In September 2014, Citizens Financial Group (NYSE: CFG) became a publicly traded company in the largest traditional bank IPO in U.S. history and, through a series of follow-on offerings in March, July and November of 2015, Citizens fully separated from RBS.

Business Segments

We offer a broad set of banking products and services through our two operating segments — Consumer Banking and Commercial Banking — with a focus on providing local delivery and a differentiated customer experience. We seek to ensure that customers select us as their primary banking partner by taking the time to understand their banking needs and we tailor our full range of products and services accordingly.

The following table presents selected financial information for our operating segments, other and consolidated:

	For the Year Ended December 31,							
	2016				2015			
(in millions)	Consumer Banking	Commercial Banking	Other [4]	Consolidated	Consumer Banking	Commercial Banking	Other [4]	Consolidated
Total average loans and leases and loans held for sale	$55,052	$45,903	$2,999	$103,954	$51,484	$41,593	$3,469	$96,546
Total average deposits and deposits held for sale	72,003	26,811	6,633	105,447	69,748	23,473	5,933	99,154
Net interest income	2,443	1,288	27	3,758	2,198	1,162	42	3,402
Noninterest income	883	466	148	1,497	910	415	97	1,422
Total revenue	3,326	1,754	175	5,255	3,108	1,577	139	4,824
Noninterest expense	2,547	741	64	3,352	2,456	709	94	3,259
Net income (loss)	$345	$631	$69	$1,045	$262	$579	($1)	$840

(1) According to SNL Financial.
(2) According to U.S. Census Bureau.
(3) According to Hoovers.
(4) Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets and liabilities, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to the Consumer Banking or Commercial Banking segments. For a description of non-core assets, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Analysis of Financial Condition — Loans and Leases — Non-Core Assets" in Part II, Item 7, included in this report.

Consumer Banking Segment

Consumer Banking serves retail customers and small businesses with annual revenues of up to $25 million through a network that as of December 31, 2016 included approximately 1,200 branches operating in an 11-state footprint across the New England, Mid-Atlantic and Midwest regions, as well as through online, telephone and mobile banking platforms. Consumer Banking products and services include deposit products, mortgage and home equity lending, auto financing, student loans, personal unsecured lines and loans, credit cards, business loans, wealth management and investment services.

Consumer Banking is focused on winning, expanding and retaining customers through its value proposition: "Simple. Clear. Personal." and is committed to delivering a differentiated experience through convenience and service. We were named one of the "Most Reputable Banks" in the country according to the American Banker/Reputation Institute Survey of Bank Reputations released in 2016, which focused on factors including products, corporate citizenship, financial performance and company leadership.

Consumer Banking accounted for $55.1 billion, or 55%, of average loans and leases (including loans held for sale) in our operating segments as of December 31, 2016 and is organized around our customer products and services as follows:

Distribution: Provides a multi-channel distribution system with a workforce of approximately 6,600 branch colleagues with a network of approximately 1,200 branches, including more than 340 in-store locations, as well as approximately 3,200 ATMs. Our network includes approximately 1,390 specialists covering lending needs, savings and investments and business banking. Our online and mobile capabilities offer customers the convenience of paying bills and transferring money between accounts and from person to person, as well as a host of other everyday transactions.

Everyday Banking: Provides customers with deposit and payment products and services, including checking, savings, money market, certificates of deposit, debit cards, credit cards and overdraft protection. The business included approximately 2.2 million checking households and $55.0 billion in average deposits as of December 31, 2016.

Residential Mortgage: Our mortgage business is primarily in footprint and in select out-of-footprint states through a direct-to-consumer call center and a mortgage loan officer base of more than 535 professionals as of December 31, 2016. Full-year 2016 mortgage originations totaled $7.8 billion with a weighted average FICO score of 769 and loan-to-value of 74% compared with 2015 mortgage originations of $5.7 billion with a weighted average FICO score of 763 and loan-to-value of 73%.

Consumer Lending: Provides home equity, auto finance products, student lending and personal unsecured lines and loans.

Home Equity: Offers HELOCs and home equity loans. We originated $5.2 billion of HELOCs in 2016 and were ranked sixth nationally by outstanding balances as of September 30, 2016[1] and ranked in the top five in each of our top nine markets for HELOC originations.[2]

Indirect Auto Finance: Provides new- and used-vehicle financing through a network of more than 6,000 automotive dealerships in 43 states as of December 31, 2016. The business ranked tenth nationally among regulated depository institutions by outstanding balances as of September 30, 2016[1] with 2016 organic origination volume of $5.6 billion with a weighted average FICO score of approximately 749.

Student Lending: We launched the Student Lending business in 2009 and have expanded to partner with nearly 2,500 high-quality, not-for-profit higher education schools in all 50 states. InSchool loan origination volume has increased to $476 million in 2016 with a weighted average FICO score of 767 from approximately $112 million of originations in 2010. We launched the Education Refinance Loan ("ERL") product in January 2014, which provides former students who have entered the workforce a way to refinance or consolidate multiple existing private and federal student loans. We originated approximately $1.4 billion in ERLs in 2016 with a weighted average FICO score of 782.

Unsecured: We launched our unsecured product finance lending business, which is reported in other retail, in third quarter 2015. In 2016, we expanded our unsecured lending business with the launch of an unsecured personal refinance product. We originated approximately $1.2 billion in unsecured loans in 2016 with a weighted average FICO score of 750, an increase of $964 million versus 2015 originations of $265 million with a weighted average FICO score of 755.

Business Banking: Serves businesses with annual revenues of up to $25 million through a combination of branch-based employees and relationship managers. As of December 31, 2016, we employed a team of more than 300 bankers with average loans outstanding of $2.9 billion and average deposit balances of $14.0 billion.

[1] According to SNL Financial.
[2] According to Equifax; origination volume as of September 30, 2016.

Wealth Management: Provides a full range of banking, investment, insurance products and advisory services primarily to clients with investable assets of $100,000 to $25 million through a sales force that includes more than 360 financial consultants, more than 170 premier bankers and ten private banker teams. As of December 31, 2016, wealth management had approximately $6.3 billion in average assets under management, $17.3 billion in average assets under administration and $42.5 billion in average total client balances.

Commercial Banking Segment

Commercial Banking primarily targets companies and institutions with annual revenues of $25 million to $2.5 billion and strives to be the lead bank for its clients. We offer a broad complement of financial products and solutions, including lending and leasing, deposit and treasury management services, foreign exchange and interest rate risk management solutions, as well as corporate finance, merger and acquisition, and debt and equity capital markets capabilities. Commercial Banking provides thought leadership by leveraging an in-depth understanding of our clients' and prospects' businesses to deliver proactive, compelling financial solutions with quality execution. Commercial Banking focuses each business unit in sectors that maximize its ability to be relevant and deliver value-added solutions to our clients. In Middle Market, this involves a business unit highly focused on our 11-state footprint. In our Mid-Corporate and Industry Verticals businesses, our focus is national within our areas of expertise. As a result, we earned a fifth place ranking for client penetration and a fifth place ranking for number of lead relationships in middle market banking within the footprint.[(1)]

Commercial Banking accounted for $45.9 billion, or approximately 45%, of average loans and leases (including loans held for sale) in our operating segments as of December 31, 2016.

Commercial Banking is structured along lines of business, as well as product groups. The Capital & Global Markets and the Treasury Solutions product groups support all lines of business. These business lines and product groups work in teams to understand and determine client needs and provide comprehensive solutions to meet those needs. New clients are acquired through a coordinated approach to the market ranging from leveraging deep industry knowledge in specialized banking groups to a geographic coverage model targeting organizations headquartered in our footprint.

Corporate Banking: Targets domestic commercial and industrial clients, serving Middle Market companies with annual gross revenues of $25 million to $500 million and Mid-corporate companies with annual revenues of $500 million to $2.5 billion. The business offers a broad range of products, including secured and unsecured lines of credit, term loans, commercial mortgages, domestic and global treasury management solutions, trade services, interest rate products, foreign exchange services and letters of credit. Corporate Banking is a general lending practice, however, our specialty Industry Verticals business addresses other corporate banking services for U.S. subsidiaries of foreign corporations, technology, government entities, healthcare, oil and gas, not-for-profit and educational institutions, professional firms and franchise finance. Corporate Banking average loans and leases of $27.3 billion increased $2.7 billion from 2015 average loans and leases of $24.6 billion.

Asset Finance: Offers equipment financing term loans and leases for Middle Market and Mid-corporate companies, as well as Fortune 500 companies. All transactions are secured by the assets financed, commitments tend to be fully drawn and most leases and loans are fixed rate. Areas of industry specialization include energy, utilities and chemicals. The business also has expertise in financing corporate aircraft and tax- and non-tax-oriented leases for other long-lived assets such as rail cars.

Commercial Real Estate: Provides customized debt capital solutions for Middle Market operators, institutional developers and investors as well as REITs. Commercial Real Estate provides financing for projects in the office, multi-family, industrial, retail, healthcare and hospitality sectors. Loan types include term debt, lines of credit and construction financing. A majority of loans are secured by commercial real estate properties and are typically non-owner occupied. Owner-occupied commercial real estate is typically originated through our Corporate Banking business. Commercial Real Estate average loans of $9.3 billion increased $1.3 billion from $8.0 billion in 2015.

Capital & Global Markets: Delivers to clients through key product groups including Capital Markets, Corporate Finance, and Global Markets.

- Capital Markets originates, structures and underwrites multi-bank credit facilities targeting Middle Market, Mid-corporate and private equity sponsors with a focus on offering value-added ideas to optimize their capital structures. In 2016, we acted as lead or co-lead for $9.7 billion in loan-syndication transactions.

  In April of 2016, we launched Citizens Capital Markets, Inc. ("CCMI"), our commercial broker-dealer, to advise on or facilitate mergers and acquisitions, tender offers, financial restructurings, asset sales, divestitures or other corporate reorganizations or business combinations.

[(1)] In-footprint ranking from Greenwich Associates. Rolling four-quarter average as of September 30, 2016 for middle market deals from $25 - $500 million.

- Corporate Finance provides advisory services to Middle Market and Mid-corporate companies, including mergers and acquisitions and capital structure advisory. The team works closely with industry-sector specialists within debt capital markets to structure and originate deal flow in multiple bank products.
- Global Markets is a customer-facing business providing foreign exchange and interest rate risk management services. The lines of business include the centralized leveraged finance team, which provides underwriting and portfolio management expertise for all leveraged transactions and relationships; the private equity team, which serves the unique and time-sensitive needs of private equity firms, management companies and funds; and the sponsor finance team, which provides acquisition and follow-on financing for new and recapitalized portfolio companies of key sponsors.

Treasury Solutions: Supports Commercial Banking and Business Banking clients with treasury management solutions, including domestic and international cash management, commercial credit cards and trade finance. Treasury Solutions provides products to solve client needs related to receivables, payables, information reporting and liquidity management.

Our Competitive Strengths

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

- *Significant Scale with Strong Market Penetration in Attractive Geographic Markets:* We believe our market share and scale in our footprint is central to our success and growth. With approximately 1,200 branches, approximately 3,200 ATMs, approximately 17,600 colleagues, and more than 100 non-branch offices as well as our online, telephone and mobile banking platforms, we serve more than five million individuals, institutions and companies. As of June 30, 2016, we ranked second by retail deposit market share in the New England region (Maine, New Hampshire, Vermont, Massachusetts, Rhode Island and Connecticut) and we ranked in the top five in nine of our ten key MSAs, including Providence, Boston, Pittsburgh, Philadelphia and Cleveland.(1) We believe this strong market share in our core regions, which have relatively diverse economies and affluent demographics, will help us achieve our long-term growth objectives.

The following table sets forth information regarding our competitive position in our principal MSAs:

(dollars in millions) MSA	Total Branches	Total Deposits	Total Deposit Rank	Deposit Market Share
Boston, MA	204	$30,837	2	15.1%
Philadelphia, PA	180	16,994	5	4.9
Providence, RI	99	11,050	1	28.8
Pittsburgh, PA	123	9,362	2	8.9
Cleveland, OH	55	7,667	4	12.0
Detroit, MI	90	4,959	8	4.1
Manchester, NH	22	4,733	1	42.5
Albany, NY	24	2,401	3	14.4
Buffalo, NY	41	1,648	5	4.0
Rochester, NY	33	1,583	5	9.3

Source: FDIC, June 2016. Excludes “non-retail banks” as defined by SNL Financial. The scope of “non-retail banks” is subject to the discretion of SNL Financial, but typically includes: industrial bank and non-depository trust charters, institutions with more than 20% brokered deposits (of total deposits), institutions with more than 20% credit card loans (of total loans), institutions deemed not to broadly participate in the banking services market and other nonretail competitor banks.

(1) According SNL Financial.

- *Strong Customer Relationships:* We focus on building strong customer relationships by delivering a consistent, high-quality level of service supported by a wide range of products and services. We believe that we provide a distinctive customer experience characterized by offering the personal touch of a local bank with the product selection of a larger financial institution. In 2016, JD Power ranked us in the top five in mortgage servicing and origination. We also continued to perform above peer average in the retail branch experience. In addition, we maintained our top ten ranking in the overall national Middle Market bookrunner league table[1] (by number of syndicated loans) for full-year 2016.
- *Experienced Management Team Supported by a High-Performing and Talented Workforce:* Our leadership team of seasoned industry professionals whose members have more than 20 years of banking experience on average, is supported by a diverse set of managers and employees committed to delivering a strong customer value proposition.
- *Stable, Low-Cost Core Deposit Base:* We have a strong funding profile, with $109.8 billion of total deposits as of December 31, 2016, consisting of 26% in noninterest-bearing deposits and 74% in interest-bearing deposits. Noninterest-bearing deposits provide a lower-cost funding base, and we have continued to grow this base to $28.5 billion as of December 31, 2016, up 45% from $19.7 billion at December 31, 2010. For the year ended December 31, 2016, our total average cost of deposits was 0.26%, up from 0.24% for the year ended December 31, 2015 and from 0.17% for the year ended December 31, 2014.
- *Superior Capital Position:* We are among the most well-capitalized large regional banks in the United States, with a CET1 capital ratio of 11.2% as of December 31, 2016 compared to a peer average of 10.5%[2]. Our strong capital position provides us the financial flexibility to continue to invest in our businesses and execute our strategic growth initiatives. Through recent capital-optimization efforts, we continue to realign our capital base with that of peer banks by reducing our CET1 capital and increasing other tier 1 and tier 2 capital levels. We continued our capital optimization strategy in 2016 as we repurchased $430 million of common stock and issued $350 million of senior debt. We additionally repurchased $625 million of subordinated debt.
- *Solid Asset Quality throughout a Range of Credit Cycles:* Our experienced credit risk professionals and prudent credit culture, combined with centralized processes and consistent underwriting standards across all business lines, have allowed us to maintain strong asset quality through a variety of business cycles. The credit quality of our loan portfolio has continued to improve with nonperforming assets as a percentage of total assets of 0.73% at December 31, 2016 compared to 0.80% as of December 31, 2015. Net charge-offs increased to 0.32% of average loans in 2016 versus 0.30% in 2015. Our ALLL to nonperforming loans coverage ratio improved to 118% at December 31, 2016 compared with 115% as of December 31, 2015. We believe the high quality of our loan portfolio provides us with capacity to seek to prudently add more attractive, higher yielding risk-adjusted returns while still maintaining appropriate risk discipline and solid asset quality.
- *Commitment to Communities:* Community involvement is one of our principal values and we strive to contribute to a better quality of life by serving the communities across our footprint through employee volunteer efforts, a foundation that funds a range of non-profit organizations and executives who provide board leadership to community organizations. These efforts contribute to a culture that seeks to promote positive employee morale and provide differentiated brand awareness in the community relative to peer banks, while also making a positive difference within the communities we serve. Employees gave more than 89,000 volunteer hours in 2016 and also served on more than 550 community boards and committees across our footprint. We believe our strong commitment to our communities provides a competitive advantage by strengthening customer relationships and increasing loyalty.

[1] According to Thomson Reuters.
[2] Peer group comprises BBT, CMA, FITB, KEY, MTB, PNC, RF, STI and USB.

Business Strategy

Our objective is to be a top-performing bank that delivers value for each of our stakeholders by offering the best possible banking experience for customers. We plan to achieve this by leveraging our strong customer relationships, leading market share rankings in attractive markets, customer-centric colleagues and our high-quality balance sheet.

Our strategy is designed to maximize the full potential of our business and drive sustainable growth and enhanced profitability. As a core measure of success, our medium-term financial targets include a ROTCE ratio of greater than 10% and an efficiency ratio in the 60% range. Our financial targets are based on numerous assumptions, including the yield curve evolving consistent with market-implied forward rates and macroeconomic and competitive conditions that are consistent with those used in our planning assumptions.

While our strategic plan and our ROTCE target and its components are presented with numerical specificity and we believe such targets to be reasonable, given the uncertainties surrounding our assumptions, there are significant risks that these assumptions may not be realized and thus our goals may not be achieved. Accordingly, our actual results may differ from these targets and the differences may be material and adverse, particularly if actual events adversely differ from one or more of our key assumptions. We caution investors not to place undue reliance on any of these assumptions or targets.

We intend to deliver on our strategy by adhering to the following strategic principles:

- **Offer customers a differentiated experience** through the quality of our colleagues, segment-based value propositions, innovative products and services, and foster a culture around customer-centricity, commitment to excellence, leadership, teamwork and integrity.
- **Build a great brand** that invokes trust from customers and reinforces our value proposition of being “Simple. Clear. Personal.” for Consumer customers and providing solutions-oriented thought leadership to Commercial clients.
- **Deliver attractive risk-adjusted returns** by making good capital and resource allocation decisions, being good stewards of our resources, and rigorously evaluating our execution.
- **Operate with a strong balance sheet** with regard to capital, liquidity and funding, coupled with a well-defined and prudent risk appetite.
- **Target a balanced business mix** between Commercial Banking and Consumer Banking.
- **Position the bank as a ‘community leader’** that makes a positive impact on the communities and local economies we serve.

In order to execute on these principles successfully, we have developed the following strategic priorities, each of which are underpinned by a series of initiatives as summarized below. We continue to make solid progress on our strategic priorities from our initial public offering, but continually re-evaluate them to ensure we maintain a strong value proposition consistent with changing customer preferences and market trends.

Position Consumer Banking to deliver improved capabilities and profitability: Consumer Banking focus is on building strong customer relationships along with a robust product portfolio that is designed to be simple and easy to understand while creating a fair value exchange for our customers and offers a “Simple. Clear. Personal.” value proposition to our customers. While we continue to offer a broad range of banking services for our mass consumer customer base, we have tightened our focus on the Mass Affluent and Affluent customer segments by offering tailored products, services and advice with fewer fees and better rates. This strategy will help us attract, retain and deepen these customer relationships. The following initiatives are being implemented to execute against our strategy:

- **Re-energize household growth and deepen relationships**— We strive to grow and deepen existing customer relationships by delivering a differentiated customer experience and using an advice, needs-based approach. We will accomplish this by combining analytics and targeting capabilities with customized product and service offerings to attract, retain and deepen customer relationships. We believe this approach will enable us to win, retain and expand customer relationships, as well as increase share of wallet penetration. We will continue to invest in our digital channels (e.g., online, mobile, ATM) and capabilities as well as our distribution network by optimizing branches and introducing more efficient, consultative formats, and through our “Citizens Checkup” needs-based approach.

- **Expand and enhance Wealth Management**— We view our wealth management business as an opportunity for continued growth and as vital to deepening the customer relationship and improving fee income generation. This strategy involves expanding and strengthening our integrated advisory model, enhancing our product suite and services, and digital advice capabilities to better meet Mass Affluent and Affluent customer needs.

- **Build a strong Residential Mortgage business**— Recognizing the critical importance of the mortgage product to the customer experience and relationship, we are continuing to build out our mortgage team and platform to achieve a solid market share position and generate consistent origination volumes. We are focused on improving fulfillment operations and efficiency, increasing our origination mix of conforming loans, driving further linkages with the core retail bank for both mortgage referrals and benefits for our wealth management business.

- **Drive growth in Student Lending and installment loans**— We have identified the underserved private student lending market as an attractive source of risk-adjusted revenue growth. We continue to demonstrate strong growth in student lending with a unique education refinance product that serves a critical borrower need. Through installment partnerships with Apple and others, in addition to introducing new products, we have enhanced our focus on unsecured lending to be more aligned with peers.
- **Invest in and grow Business Banking**— We have recognized that strengthening efforts in the small business market is critical to grow profitable relationships and drive scalable growth of the franchise. We view this as an important source for loans, deposits, cash management, and other fee revenue.
- **Optimize indirect Auto business**— Our auto business supports diversification of revenue generation outside of our traditional retail distribution channels. We predominantly target prime borrowers and continue to enhance our pricing and rationalize our dealer base to optimize returns and moderate growth in this business line.

These initiatives have already resulted in a stronger Consumer franchise in 2016 highlighted by prudent balance sheet growth and improved returns. Consumer Banking average loans and leases including loans held for sale of $55.1 billion in 2016 grew $3.6 billion, or 7%, from 2015. Consumer Banking average deposits of $72.0 billion in 2016 increased $2.3 billion, or 3% from 2015. Return on tangible common equity improved by 115 basis points from 5.53% in 2015 to 6.68% in 2016.

Continue the momentum in Commercial Banking: Our Commercial Banking vision is to be the "lead bank" for our customers. We will accomplish this by employing great bankers and specialized industry experts that demonstrate thought leadership, enhancing delivery to our customers by optimizing our coverage model and bringing more client solutions through product and industry-based solutions, and enhancing our tools to support our front-line bankers. We continue to see further build-out of the Commercial Banking business as critical to achieving a balanced business mix, and consequently have grown the contribution of Commercial loans to be 45% of operating segment loans. The initiatives below have enabled Commercial Banking to continue its positive momentum while building upon existing strengths.

- **Strengthen Middle Market**— We continue to build on our strong core relationships and capabilities in the middle market space. In 2016, we began utilizing more advanced analytics and disciplined sales processes to attract new customers and deepen our customer relationships.
- **Build out Mid-corporate and Industry Verticals**— We continue to build capabilities nationally in the Mid-corporate and Industry Verticals space, each of which is focused on serving larger, mostly public clients with annual revenue of more than $500 million. This geographic expansion has been selective and in markets where our established expertise and product capabilities can be relevant. We have focused our growth on specialty verticals where we can leverage industry expertise (e.g., Healthcare, Technology, Oil and Gas).
- **Development of Capital and Global Markets**— We are building upon our strong customer relationships and strengthening our capabilities in order to provide comprehensive solutions and advisory services to meet client needs, by improving our capabilities with respect to improved institutional sales, loan trading desk, fixed income and advisory broker-dealer activities.
- **Build out Treasury Solutions**— We continue to make investments in our Treasury Solutions platform, products, and customer-facing talent to better meet client needs. We are focused on attracting new customers and deepening client relationships by refining segmentation strategies to capture more Middle Market and Mid-corporate clients, providing differentiated product offerings for our Franchise Finance and CRE customers, and deploying analytical tools to help our bankers.
- **Leverage Franchise Finance and Capabilities**— We are a top provider of capital to leading franchisees from concepts including McDonald's, Taco Bell, Dunkin' Donuts, Buffalo Wild Wings, Wendy's and Applebee's. We are also broadening our target market to focus on regional restaurant operating companies and gas station and convenience stores.
- **Optimize Commercial Real Estate**— We continue to prudently grow the portfolio and have introduced selective product expansion through partnerships, including building a long-term permanent financing capability, to help address developers' needs. We continue to deepen client penetration with top developers in core geographies, while moderating growth in a number of select areas.
- **Reposition Asset Finance**— We continue to re-position our business model to more effectively serve our core Middle Market and Mid-corporate clients by delivering tailored financing solutions and the capability to finance leases and loans. We focus on industries and collaterals where we have expertise including trucking, rail, construction and renewable

energy. These moves are designed to improve returns, while focusing on areas where we have demonstrated a strong balance of risk and returns.

The Commercial Banking business has continued to display solid financial results and executed well on these initiatives. Commercial Banking average loans and leases including loans held for sale of $45.9 billion, grew $4.3 billion or 10% from 2015. Commercial Banking average deposits of $26.8 billion in 2016 increased $3.3 billion, or 14%, from 2015. Return on tangible common equity remained strong at 12.44%, an increase of 3 basis points from 2015.

Grow the balance sheet to build scale and better leverage our cost base and infrastructure: We have a scalable operating platform that has the capacity to accommodate a significantly larger balance sheet than our current size. Prior to the global financial crisis, we had expanded to nearly $170 billion in assets which was then intentionally contracted in order to reposition the bank and strengthen our business profile through the run off of non-core assets and reduced dependency on wholesale funding. We continue to prudently grow the balance sheet primarily through organic loan growth and selective portfolio purchases:

- Total assets increased $11.3 billion to $149.5 billion at December 31, 2016, or 8%, compared to December 31, 2015;
- Loans and leases (excluding loans and leases held for sale) increased by $8.6 billion, or 9%, from December 31, 2015, reflecting a $5.4 billion increase in commercial and a $3.2 billion increase in retail loans;
- Total deposits increased $7.3 billion, or 7%, compared with December 31, 2015, driven by growth in checking with interest, term deposits, and money market products; and
- Balance sheet expansion is critical to executing on our strategic priority of enhancing our return profile and efficiency by better leveraging our existing capital position, infrastructure and expense base.

Develop a high-performing, customer-centric organization and culture: In the midst of an evolving and challenging business environment, we are focused on delivering the best possible banking experience through our colleagues. As such, we strive to ensure that managers and colleagues are customer centric, have a commitment to excellence and live our values and credo every day. To further strengthen the organization's health, we have embarked on initiatives focused on recruiting, talent management, succession planning, leadership development, organizational structure and incentives. We measure progress through an annual Organizational Health Index ("OHI") and showed significant improvement in 2016 compared to 2015.

Continue to embed risk management throughout the organization and build strong relationships with regulators: We remain committed to embedding a comprehensive enterprise risk management program across key management areas. We continued to refine our capabilities by fully developing policies and risk appetite frameworks and standards, clearly articulating roles and responsibilities across all lines of defense, and enabling a culture that reinforces and rewards risk-based behaviors as we continue to enhance our regulatory relationships.

Focus on Improved Efficiency and Disciplined Expense Management: We believe that continued focus on operational efficiency is critical to our profitability and ability to reinvest in the franchise. We launched the first Tapping our Potential ("TOP") initiative in late 2014 which was designed to improve the effectiveness, efficiency and competitiveness of the franchise. As part of our continuous improvement efforts, we launched TOP II in mid-2015, which delivered a $105 million pre-tax benefit in 2016. In mid-2016, we began executing on the third phase of efficiency improvements as part of TOP III, which is targeted to achieve a run-rate pre-tax benefit of $100 million to $115 million by the end of 2017.

Modernize technology and operational models to improve delivery, agility and speed-to-market: Modernizing our technology environment has been a key focus so that we can accelerate our speed-to-market and take advantage of technology opportunities in the marketplace. We have prioritized technology investments that provide for open architecture and emphasize cloud computing to help drive technology efficiencies and enhance our risk management culture, including enabling security tools to help maintain a strong defense against cyber-attacks and ways of working that facilitate faster delivery across our technology projects. We are also focused on FinTech partnerships that help deliver differentiated digital experiences for our customers.

2016 Financial performance: Our strategic initiatives are focused on the fundamentals of growing customers, relationships, loans, deposits, total revenue and overall profitability. While the above priorities are designed to enhance performance during the long term, successful execution to date has resulted in improved financial performance in 2016, as highlighted below:

- Net income of $1.0 billion in 2016, up $205 million, or 24%, versus 2015 net income of $840 million; 2016 included the impact of $31 million of pre-tax restructuring charges and special items. 2016 net income increased $50 million after-tax tied to the change in net restructuring charges, special items and notable items;
- Net interest margin of 2.86% in 2016 was up 11 basis points from 2015 due to earning asset growth and improved loan yield mix, partially offset by a reduction in investment portfolio yields and higher borrowing costs;
- Credit quality remained largely stable with net charge-offs increasing modestly to 0.32% of average loans in 2016 compared to 0.30% of average loans in 2015; and

- ROTCE of 7.74% in 2016 increased 129 basis points from 6.45% in 2015. Adjusted ROTCE (excluding restructuring charges, special items and notable items) of 7.60% in 2016 increased 91 basis points from 6.69% in 2015.

ROTCE is a key performance metric and adjusted ROTCE is a non-GAAP financial measure. For more information on the computation of non-GAAP financial measures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Principal Components of Operations and Key Performance Metrics Used by Management — Key Performance Metrics and Non-GAAP Financial Measures" in Part II, Item 7, included in this report.

Competition

The financial services industry is highly competitive. Our branch footprint is in the New England, Mid-Atlantic and Midwest regions, though certain lines of business serve broader, national markets. Within those markets we face competition from community banks, super-regional and national financial institutions, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies and money market funds. Some of our larger competitors may make available to their customers a broader array of product, pricing and structure alternatives while some smaller competitors may have more liberal lending policies and processes. Competition among providers of financial products and services continues to increase, with consumers having the opportunity to select from a growing variety of traditional and nontraditional alternatives. The ability of non-banking financial institutions to provide services previously limited to commercial banks has also intensified competition.

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

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

Intellectual Property

In the highly competitive banking industry in which we operate, trademarks, service marks, trade names and logos are important to the success of our business. We own and license a variety of trademarks, service marks, trade names, logos and pending registrations and are spending significant resources to develop our stand-alone brands. In connection with our initial public offering, we entered into a trademark license agreement, pursuant to which we were granted a limited license to use the RBS daisywheel trademark for an initial term of five years and, at our option, up to ten years.

Information Technology Systems

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

Regulation and Supervision

Our operations are subject to extensive regulation, supervision and examination under federal and state laws. These laws and regulations cover all aspects of our business, including lending practices, safeguarding deposits, customer privacy and information security, capital structure, transactions with affiliates and conduct and qualifications of personnel. These laws and regulations are intended primarily for the protection of depositors, the Deposit Insurance Fund and the banking system as a whole and not for the protection of shareholders or other investors. The discussion below outlines the material elements of selected laws and regulations applicable to us and our subsidiaries. Changes in applicable law or regulation, and in their interpretation and application by regulatory agencies and other governmental authorities, cannot be predicted, but may have a material effect on our business, financial condition or results of operations.

As described in more detail below, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and its implementing regulations significantly restructured the financial regulatory regime in the United States and enhanced supervision and prudential standards for large bank holding companies. The implications of the Dodd-Frank Act for our businesses depend to a large extent on the manner in which its implementing regulations continue to be established and interpreted by the primary U.S. financial regulatory agencies - the FRB, the FDIC, the OCC, the SEC and the Commodity Futures Trading Commission ("CFTC"). Certain aspects of the Dodd-Frank Act remain subject to further rulemaking, take effect over various transition periods, or contain other elements that make it difficult to precisely anticipate their full impact. Recent political developments, including the change in administration in the U.S., have added additional uncertainty to the implementation, scope and timing of regulatory reforms.

Overview

We are a bank holding company under the Bank Holding Company Act of 1956 ("Bank Holding Company Act"). We have elected to be treated as a financial holding company under amendments to the Bank Holding Company Act as effected by GLBA. As such, we are subject to the supervision, examination and reporting requirements of the Bank Holding Company Act and the regulations of the FRB, including through the Federal Reserve Bank of Boston. Under the system of "functional regulation" established under the Bank Holding Company Act, the FRB serves as the primary regulator of our consolidated organization, and the primary regulator of our broker-dealer subsidiary, the SEC, directly regulates the activities of that subsidiary, with the FRB exercising a supervisory role. The Dodd-Frank Act amendments to the Bank Holding Company Act require the FRB to examine the activities of non-depository institution subsidiaries of bank holding companies (that are not functionally regulated) that are engaged in depository institution-permissible activities and provides the FRB with back-up examination and enforcement authority for such activities. The FRB also has the authority to require reports of and examine any holding company subsidiary.

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

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

The federal and state banking regulators are given authority to approve or disapprove mergers, acquisitions, consolidations, the establishment of branches and similar corporate actions. These banking regulators also have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. State and federal law govern the activities in which CBNA and CBPA engage, including the investments each makes and the aggregate amount of loans that may be granted to one borrower. Various consumer and compliance laws and regulations also affect their operations. CBNA and CBPA also are affected by the actions of the FRB as it implements monetary policy.

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

Financial Regulatory Reform

The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, addressing, among other things, systemic risk, capital adequacy, deposit insurance assessments, consumer financial protection, regulation of derivatives and securities markets, restrictions on an insured bank's transactions with its affiliates, lending limits and mortgage-lending practices. Moreover, as a general matter, the federal banking regulators (the FRB, the OCC and the FDIC) as well as the CFPB have taken a more stringent approach to supervising and regulating financial institutions and financial products and services over which they exercise their respective supervisory authorities, including with respect to enforcement matters. Our two banking subsidiaries and our products and services have been subject to greater supervisory scrutiny and enhanced supervisory requirements and expectations in recent years.

Sections 165 and 166 of the Dodd-Frank Act direct the FRB to establish enhanced prudential standards and early remediation requirements applicable to large financial institutions with total consolidated assets of $50 billion or more. The FRB has adopted final rules implementing three aspects of Sections 165 and 166 - liquidity requirements, stress testing of capital, and overall risk management requirements. The final rules' liquidity requirements are described below under "—Liquidity Standards" and their stress testing requirements are described below under "—Capital Planning and Stress Testing Requirements".

Section 165 of the Dodd-Frank Act also requires bank holding companies with total consolidated assets of $50 billion or more to submit resolution plans to the FRB and FDIC providing for the company's strategy for rapid and orderly resolution in the event of its material financial distress or failure. In September 2011, these agencies issued a joint final resolution plan rule implementing this requirement. The FDIC issued a separate such rule applicable to insured depository institutions of $50 billion or more in total assets, such as CBNA. We submitted our most recent resolution plan to the FRB and FDIC in December 2016; CBNA submitted its most recent resolution plan to the FDIC in December 2015. If the FRB and the FDIC determine that these plans are not credible and we do not cure the deficiencies, the FRB and the FDIC may impose more stringent capital, leverage or liquidity requirements or restrictions on our growth, activities or operations.

The FRB has not yet adopted final rules implementing two key requirements of Section 165 and 166 - single counterparty credit limits ("SCCL") and early remediation requirements. In March 2016 the FRB issued a re-proposal of its SCCL rules, initially published for comment in 2014. As re-proposed, we and our controlled entities would be prohibited from having an aggregate net credit exposure to any counterparty (as broadly defined in the proposed rule to include certain related entities to the entity that is the direct obligor) exceeding 25% of our tier 1 capital. The SCCL rules, when finalized, may affect our ability to enter into transactions, including as hedges for other exposures, with other financial institutions.

The Basel III rules, summarized briefly below, have impacted our level of capital, and may influence the types of business we may pursue and how we pursue business opportunities. Among other things, the Basel III rules raised the required minimums for certain capital ratios, added a common equity ratio, included capital buffers, and restricted what constitutes capital. The capital and risk weighting requirements became effective for us on January 1, 2015.

Many of the provisions of the Dodd-Frank Act and other laws are subject to further rulemaking, guidance and interpretation by the applicable federal regulators. We will continue to evaluate the impact of any changes in law and any new regulations promulgated, including changes in regulatory costs and fees, modifications to consumer products or disclosures required by the CFPB and the requirements of the enhanced supervision provisions, among others.

Financial Holding Company Regulation

The Bank Holding Company Act generally restricts bank holding companies from engaging in business activities other than (i) banking, managing or controlling banks, (ii) furnishing services to or performing services for subsidiaries and (iii) activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto. For so long as they continue to meet the eligibility requirements for financial holding company status, financial holding companies may engage in a broader range of activities, including, among other things, securities underwriting and dealing, insurance underwriting and brokerage, merchant banking and other activities that are determined by the FRB, in cooperation with the Treasury Department, to be "financial in nature or incidental thereto" or that the FRB determines unilaterally to be "complementary" to financial activities. In addition, a financial holding company may conduct permissible new financial activities or acquire permissible non-bank financial companies with after-the-fact notice to the FRB.

As noted above, we have elected to be treated as a financial holding company under amendments to the Bank Holding Company Act as effected by GLBA. To maintain financial holding company status, a financial holding company and all of its insured depository institution subsidiaries must remain well capitalized and well managed (as described below under "Federal Deposit Insurance Act"), and maintain a CRA rating of at least "Satisfactory." If a financial holding company ceases to meet these requirements, the FRB's regulations provide that the financial holding company must enter into an agreement with the FRB to comply with all applicable capital and management requirements. Until the financial holding company returns to compliance, the FRB may impose limitations or conditions on the conduct of its activities, and the company may not commence any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the FRB. In addition, the failure to meet such requirements could result in other material restrictions on the activities of the financial holding company, may also adversely affect the financial holding company's ability to enter into certain transactions, including acquisition transactions, or obtain necessary approvals in connection therewith, and may result in the bank holding company losing financial holding company status. Any restrictions imposed on our activities by the FRB may not necessarily be made known to the public. If the company does not return to compliance within 180 days, the FRB may require the financial holding company to divest its subsidiary depository institutions or to discontinue or divest investments in companies engaged in activities permissible only for a bank holding company electing to be treated as a financial holding company. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state.

Currently under the Bank Holding Company Act, we may not be able to engage in certain categories of new activities or acquire shares or control of other companies other than in connection with internal reorganizations.

Financial Subsidiary Compliance Requirements

A financial subsidiary of a national bank 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. On March 13, 2014, the OCC determined that CBNA no longer met the conditions to own a financial subsidiary - namely that CBNA must be both well capitalized and well managed. CBNA entered into an agreement with the OCC pursuant to which it developed and submitted to the OCC a remediation plan setting forth the specific actions it will take to bring itself back into compliance with the conditions to own a financial subsidiary. CBNA has completed its undertakings under the plan, which have been validated by our internal audit team and submitted to the OCC for review and approval. However, until the plan has been approved by the OCC, CBNA will be subject to restrictions on its ability to acquire control or hold an interest in any new financial subsidiary and to commence new activities in any existing financial subsidiary without the prior consent of the OCC.

Our bank subsidiaries are also making improvements to their compliance management systems, fair lending compliance, risk management, identity theft and debt cancellation add-on product practices, overdraft fees and deposit reconciliation practices, mortgage servicing, third-party payment processor activities, oversight of third-party providers, consumer compliance program, policies, procedures and training, information security, and consumer complaints process in order to address deficiencies in those areas. These efforts require us to make investments in additional resources and systems and also require a significant commitment of managerial time and attention.

We are also required to make improvements to our overall compliance and operational risk management programs and practices to comply with enhanced supervisory requirements and expectations and to address weaknesses in retail credit risk management, liquidity risk management, model risk management, outsourcing and vendor risk management and related oversight and monitoring practices and tools.

Capital

We must comply with the FRB's capital adequacy rules. CBNA and CBPA must comply with similar capital adequacy rules of the OCC and FDIC, respectively. The capital adequacy rules of all three agencies are based on the Basel III framework. For more detail on our regulatory capital, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital" in Part II, Item 7, included in this report.

Prior to January 1, 2015, the risk-based capital standards applicable to us and our bank subsidiaries (the "general risk-based capital rules") were based on the 1988 Capital Accord, known as Basel I, of the Basel Committee. In July 2013, the federal bank regulators approved final capital rules implementing the Basel III framework as well as certain provisions of the Dodd-Frank Act. The Basel III-based U.S. final rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the Parent Company, CBNA and CBPA, as compared to the general risk-based capital rules. The U.S. Basel III final rules became effective for the Parent Company, CBNA and CBPA on January 1, 2015 (subject to a phase-in period for certain provisions).

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

Under the U.S. Basel III final rules, the minimum capital ratios are:

- 4.5% CET1 capital to risk-weighted assets;
- 6.0% tier 1 capital (that is, CET1 capital plus Additional tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, tier 1 capital plus tier 2 capital) to risk-weighted assets; and
- 4.0% tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

The U.S. Basel III final rules also introduced a new capital conservation buffer ("CCB"), composed entirely of CET1 capital, on top of three minimum risk-weighted asset ratios. Under existing rules, the CCB when fully phased-in on January 1, 2019 will be 2.5%. Banking institutions with a ratio of CET1 capital, tier 1 capital or Total capital to risk-weighted assets below the effective minimum once the CCB is taken into account (that is, 7.0%, 8.5% and 10.5% for the three ratios, respectively, once the CCB is fully-phased in) will be subject to constraints on capital distributions, including dividends and share repurchases, and certain discretionary executive compensation based on the amount of the shortfall. The implementation of the CCB began on January 1, 2016 at the 0.625% level and will increase by 0.625% on each subsequent January 1, until the buffer reaches its fully phased in level of 2.5% on January 1, 2019. For more details see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital" in Part II, Item 7, included in this report.

We are also subject to the FRB's risk-based capital requirements for market risk. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risk — Market Risk Regulatory Capital" in Part II, Item 7, included in this report for further discussion.

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

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

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

Liquidity Standards

Historically, the FRB evaluated our liquidity as part of the supervisory process, without required formulaic measures. Liquidity risk management and supervision have become increasingly important since the 2008 financial crisis. In September 2014, the FRB, OCC and FDIC issued a final rule to implement the Basel III-based U.S. LCR, which is a quantitative liquidity metric designed to ensure that a covered bank or bank holding company maintains an adequate level of unencumbered high-quality liquid assets to cover expected net cash outflows over a 30-day time horizon under an acute liquidity stress scenario. The LCR rule, as adopted, applies in its most comprehensive form only to advanced approaches bank holding companies (that is, those with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposures) and depository institutions subsidiaries of such bank holding companies and, in a modified form, to bank holding companies having $50 billion or more in total consolidated assets but less than the thresholds for the advanced approaches. The U.S. LCR differs in certain respects from the Basel Committee's version of the LCR, including a narrower definition of high-quality liquid assets, different prescribed cash inflow and outflow assumptions for certain types of instruments and transactions, and a shorter phase-in schedule that began on January 1, 2015. As of January 1, 2017, the rule has been fully phased in. The modified LCR requires us to maintain a ratio of high-quality liquid assets to 70% of net cash outflows (compared to 100% in the comprehensive LCR for advanced approaches bank holding companies). At December 31, 2016, our LCR on the modified basis was above the minimum requirement.

As a modified LCR company, we are required to calculate our LCR on a monthly basis. If a covered company fails to meet the minimum required LCR, it must promptly notify its primary federal banking regulator and may be required to take remedial actions. In December 2016, the FRB issued a final rule that requires bank holding companies to disclose publicly, on a quarterly basis, quantitative and qualitative information about certain components of our LCR beginning for modified LCR bank holding companies on October 1, 2018.

The Basel III framework also included a second liquidity standard, the NSFR, which is designed to promote more medium- and long-term funding of the assets and activities of banks over a one-year time horizon. In May 2016, the federal banking regulators issued a proposed rule that would implement the NSFR for large U.S. banking organizations. Under the proposed rule, the most stringent requirements would apply to advanced approaches bank holding companies, and would require such organizations to maintain a minimum NSFR of 1.0 on an ongoing basis, calculated by dividing the organization's available stable funding ("ASF") by its required stable funding ("RSF"). Bank holding companies with more than $50 billion but that are not advanced approaches bank holding companies would be subject to a modified NSFR requirement which would require such bank holding companies to maintain a minimum NSFR of 0.7 on an ongoing basis. Under the proposed rule, a banking organization's ASF would be calculated by applying specified standard weightings to its equity and liabilities based on their expected stability over a one-year time horizon and its RSF would be calculated by applying specified standardized weightings to its assets, derivative exposures and commitments based on their liquidity characteristics over the same one-year time horizon. If implemented as proposed, the NSFR rule would take effect on January 1, 2018. We continue to evaluate the potential effects of this proposal on our operations.

Finally, per the liquidity rules included in the FRB's enhanced prudential standards adopted pursuant to Section 165 of the Dodd-Frank Act (referred to above under "—Financial Regulatory Reform") we are required to maintain a buffer of highly liquid assets based on projected funding needs for 30 days. The liquidity buffer is in addition to the federal banking regulators' LCR rule and is described by the FRB as being "complementary" to the LCR and NSFR.

Capital Planning and Stress Testing Requirements

Bank holding companies with $50 billion or more in total consolidated assets are required to develop and maintain a capital plan, and to submit the capital plan to the FRB for review under its CCAR process. CCAR is designed to evaluate the capital adequacy, capital adequacy process and planned capital distributions, such as dividend payments and common stock repurchases, of a bank holding company subject to CCAR. As part of CCAR, the FRB evaluates whether a bank holding company has sufficient capital to continue operations under various hypothetical scenarios of economic and financial market stress (both bank holding company- and FRB- developed, including an "adverse" and "severely adverse" stress scenario developed by the Federal Reserve). The FRB will also evaluate whether the bank holding company has robust, forward-looking capital planning processes that account for its unique risks.

The capital plan must cover a "planning horizon" of at least nine quarters (beginning with the quarter preceding the submission of the plan, or January 1, 2017 for the capital plans required to be filed on or before April 5, 2017). Bank holding companies are also subject to an ongoing requirement to revise and resubmit their capital plans upon the occurrence of certain events specified by rule, or when required by the FRB. In addition to other limitations, our ability to make any capital distributions (including dividends and share repurchases) is contingent on the FRB's non-objection to our capital plan under quantitative tests requiring that we demonstrate that we will continue to meet all minimum capital requirements applicable to us over the nine-quarter planning horizon under all applicable scenarios. For capital plans in CCAR submissions before the April 5, 2017 submission, the FRB was able to object to the capital plan of any bank holding company subject to CCAR under quantitative tests as well as qualitative tests (such as concerns with the assumptions, analysis or methodologies of the capital plan).

The FRB recently amended its capital plan rule to eliminate its ability to object to the capital plan of a "large and noncomplex" bank holding company (that is, one that has less than $250 billion in total consolidated assets, less than $75 billion in nonbank assets, and that is not classified as a global systemically important bank holding company under the FRB's capital rules) on qualitative grounds. However, the FRB will incorporate an assessment of the qualitative aspects of the firm's capital planning process into regular, ongoing supervisory activities and through targeted, horizontal assessments of particular aspects of capital planning.

Should the FRB object to a capital plan, a bank holding company may not make any capital distribution other than those capital distributions that the FRB has indicated its non-objection to in writing. Participating firms are required to submit their capital plans and stress testing results to the FRB on or before April 5th of each year, and the FRB will publish the results of its supervisory CCAR review of submitted capital plans by June 30th of each year. In addition, the FRB will separately publish the results of its supervisory stress test under both the supervisory severely adverse and adverse scenarios. The information to be released will include, among other things, the FRB's projection of company-specific information, including post-stress capital ratios and the minimum value of these ratios over the planning horizon.

The FRB's capital planning and stress testing rules generally limit our ability to make quarterly capital distributions-that is, dividends and share repurchases-if the amount of our actual cumulative quarterly capital issuances of instruments that qualify as regulatory capital are less than we had indicated in our submitted capital plan as to which we receive a non-objection from the FRB. Due to the importance and intensity of the stress tests and the CCAR process, we have dedicated significant resources to comply with stress testing and capital planning requirements and expect to continue to do so in the future.

Standards for Safety and Soundness

The FDIA requires the FRB, OCC and FDIC to prescribe operational and managerial standards for all insured depository institutions, including CBNA and CBPA. The agencies have adopted regulations and interagency guidelines which set forth the safety and soundness standards used to identify and address problems at insured depository institutions before capital becomes impaired. If an agency determines that a bank fails to satisfy any standard, it may require the bank to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and soundness compliance plans. If, after being notified to submit a compliance plan, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the FDIA. See "Federal Deposit Insurance Act" below. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

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

Federal Deposit Insurance Act

The FDIA requires, among other things, that the federal banking regulators take "prompt corrective action" with respect to depository institutions that do not meet minimum capital requirements, as described above in "Capital." The FDIA sets forth the following five capital categories: "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." The federal banking regulators must take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions which are undercapitalized, significantly undercapitalized or critically undercapitalized, with the actions becoming more restrictive and punitive the lower the institution's capital category. A depository institution's capital category will depend upon how its capital levels compare with various relevant capital measures and certain other factors that are established by regulation, and the severity of mandatory and discretionary supervisory actions depends upon the capital category in which the institution is placed. Under existing rules, an institution that is not an advanced approaches institution is deemed to be "well capitalized" if it has (i) a CET1 ratio of at least 6.5%, (ii) a tier 1 capital ratio of at least 8%, (iii) a Total capital ratio of at least 10%, and (iv) a tier 1 leverage ratio of at least 5%.

The FDIA's prompt corrective action provisions only apply to depository institutions and not to bank holding companies. The FRB's regulations applicable to bank holding companies separately define "well capitalized" for bank holding companies to require maintaining a tier 1 capital ratio of at least 6% and a Total capital ratio of at least 10%. As described above under "—Financial Holding Company Regulation", a financial holding company that is not well-capitalized and well-managed (or whose bank subsidiaries are not well capitalized and well managed) under applicable prompt corrective action standards may be restricted in certain of its activities and ultimately may lose financial holding company status.

As of December 31, 2016, the Parent Company, CBNA and CBPA were well-capitalized.

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

Deposit Insurance

The FDIA requires CBNA and CBPA to pay deposit insurance assessments. FDIC assessment rates for large institutions are calculated based on one of two scorecards, one for most large institutions that have more than $10 billion in assets and another for "highly complex" institutions that have over $50 billion in assets and are fully owned by a parent with over $500 billion in assets. Each scorecard has a performance score and a loss-severity score that are combined to produce a total score, which is translated into an initial assessment rate. In calculating these scores, the FDIC utilizes the CAMELS ratings, as well as forward-looking financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC has the ability to make discretionary adjustments to the total score, up or down, based upon significant risk factors that are not adequately captured in the scorecard. The total score is then translated to an initial base assessment rate on a non-linear, sharply-increasing scale. As of July 1, 2016, for large institutions the initial base assessment rate ranges from 3 to 30 basis points on an annualized basis (basis points representing cents per $100). After the effect of potential base-rate adjustments, the total base assessment rate could range from 1.5 to 40 basis points on an annualized basis.

The deposit insurance assessment is calculated based on average consolidated total assets less average tangible equity of the insured depository institution during the assessment period. Deposit insurance assessments are also affected by the minimum reserve ratio with respect to the Deposit Insurance Fund ("DIF"). In March 2016, the FDIC issued a final rule that imposes on insured depository institutions with at least $10 billion in assets, including CBNA and CBPA, a surcharge of 4.5 basis points per annum until the earlier of the quarter that the DIF reaches the required reserve ratio of 1.35% and December 31, 2018, which the FDIC estimates will take approximately two years. Under the rule, if the reserve ratio does not reach 1.35% by December 31, 2018, the FDIC will impose a shortfall assessment on larger depository institutions, including CBNA and CBPA, in the first quarter of 2019 to be collected on June 30, 2019. The rule has resulted in higher deposit insurance assessments for both CBNA and CBPA.

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

Dividends

Various federal and statutory provisions and regulations, as well as regulatory expectations, limit the amount of dividends that we and our subsidiaries may pay.

Our payment of dividends to our stockholders is subject to the oversight of the FRB. In particular, the dividend policies and share repurchases of a large bank holding company are reviewed by the FRB based on capital plans submitted as part of the CCAR process and stress tests as submitted by the bank holding company, as discussed above, and will be assessed against, among other things, the bank holding company's ability to achieve the required capital ratios under the Basel III- based U.S. revised capital rules as they are phased in by U.S. regulators. In addition to other limitations, our ability to make any capital distributions (including dividends and share repurchases) is contingent on the FRB's non-objection to such planned distributions included in our submitted capital plan. See "Capital" and "Capital Planning and Stress Testing Requirements" above.

Dividends payable by CBNA, as a national bank subsidiary, are limited to the lesser of the amount calculated under a "recent earnings" test and an "undivided profits" test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net income combined with the retained net income of the two preceding years, less any required transfers to surplus, unless the national bank obtains the approval of the OCC. Under the undivided profits test, a dividend may not be paid in excess of the entity's "undivided profits" (generally, accumulated net profits that have not been paid out as dividends or transferred to surplus). Federal bank regulatory agencies have issued policy statements which provide that FDIC-insured depository institutions and their holding companies should generally pay dividends only out of their current operating earnings. Under Pennsylvania law, CBPA may declare and pay dividends only out of accumulated net earnings and only if (i) any required transfer to surplus has been made prior to declaration of the dividend and (ii) payment of the dividend will not reduce surplus.

Support of Subsidiary Banks

Under Section 616 of the Dodd-Frank Act, which codifies the FRB's long-standing "source of strength" doctrine, we must serve as a source of financial and managerial strength for our depository institution subsidiaries. The statute defines "source of financial strength" as the ability to provide financial assistance in the event of the financial distress at the insured depository institution. The FRB may require that we provide such support at times even when we may not have the financial resources to do so, or when doing so may not serve our interests or those of our shareholders or creditors. In addition, any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Transactions with Affiliates and Insiders

Sections 23A and 23B of the Federal Reserve Act and related FRB rules, including its Regulation W, restrict our bank subsidiaries from extending credit to, or engaging in certain other transactions with, us and our non-bank subsidiaries. These restrictions place limits on certain specified "covered transactions" between these subsidiary banks and their affiliates, which must be limited to 10% of a bank's capital and surplus for any one affiliate and 20% for all affiliates. Furthermore, within the foregoing limitations as to amount, certain covered transactions must meet specified collateral requirements ranging from 100% to 130%. Covered transactions are defined to include, among other things, a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the FRB) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, derivatives transactions and securities lending transactions where the bank has credit exposure to an affiliate, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. All covered transactions, including certain additional transactions (such as transactions with a third party in which an affiliate has a financial interest), must be conducted on market terms. The Dodd-Frank Act significantly enhanced and expanded the scope and coverage of these limitations, in particular, by including within its scope derivative transactions by and between CBNA or CBPA or their subsidiaries and the Parent Company or its other subsidiaries. The Federal Reserve enforces these restrictions and we are audited for compliance.

Section 23B prohibits an institution from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with non-affiliated companies. Except for limitations on low-quality asset purchases and transactions that are deemed to be unsafe or unsound, Regulation W generally excludes affiliated depository institutions from treatment as affiliates. Transactions between a bank and any of its subsidiaries that are engaged in certain financial activities may be subject to the affiliated transaction limits. The FRB also may designate banking subsidiaries as affiliates.

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

Volcker Rule

The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in, sponsoring and having certain relationships with private funds such as hedge funds or private equity funds that would be an investment company for purposes of the Investment Company Act of 1940 but for the exclusions in sections 3(c)(1) or 3(c)(7) of that act, both subject to certain limited exceptions. The statutory provision is commonly called the "Volcker Rule." In December 2013, the FRB, OCC, FDIC, the SEC and the CFTC issued final rules to implement the Volcker Rule, which became effective in July 2015. The final rules also require that large bank holding companies design and implement compliance programs to ensure adherence to the Volcker Rule's prohibitions. Development and monitoring of the required compliance program may require the expenditure of resources and management attention.

Consumer Financial Protection Regulations

The retail activities of banks are subject to a variety of statutes and regulations designed to protect consumers and promote lending to various sectors of the economy and population. These laws include, but are not limited to, the Equal Credit Opportunity Act, the Fair Debt Collection Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Service Members Civil Relief Act, the Expected Funds Availability Act, the Right to Financial Privacy Act, the Truth in Savings Act, the Electronic Funds Transfer Act, and their respective federal regulations and state law counterparts.

In addition to these federal laws and regulations, the guidance and interpretations of the various federal agencies charged with the responsibility of implementing such regulations also influences loan and deposit operations.

The CFPB has broad rulemaking, supervisory, examination and enforcement authority over various consumer financial protection laws, including the laws referenced above, fair lending laws and certain other statutes. The CFPB also has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets, including the authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products.

The Dodd-Frank Act permits states to adopt stricter consumer protection laws and standards that are more stringent than those adopted at the federal level and in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

The CFPB has finalized a number of significant rules which will impact nearly every aspect of the life cycle of a residential mortgage. The final rules require banks to, among other things: (i) develop and implement procedures to ensure compliance with a new "ability to repay" standard and identify whether a loan meets a new definition for a "qualified mortgage;" (ii) implement new or revised disclosures, policies and procedures for servicing mortgages including, but not limited to, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower's principal residence; (iii) comply with additional restrictions on mortgage loan originator hiring and compensation; (iv) comply with new disclosure requirements and standards for appraisals and certain financial products; and (v) maintain escrow accounts for "higher priced mortgage loans" for a longer period of time. We are continuing to analyze the impact that such rules have on our business.

In addition, we and our banking subsidiaries are currently subject to consent orders issued in 2015 by certain of our regulators in connection with past deposit reconciliation and billing practices, under which the applicable regulators have provided non-objections to, among other things, restitution plans for affected customers. All financial penalties associated with these regulatory enforcement matters have been paid, and substantially all remediation related to such legacy matters was resolved as of December 31, 2016.

Protection of Customer Personal Information and Cybersecurity

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

In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing Internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties. For a further discussion of risks related to cybersecurity, see "Risk Factors" in Part I, Item 1A, included in this report.

In October 2016, federal regulators jointly issued an advance notice of proposed rulemaking on enhanced cyber risk management standards that are intended to increase the operational resilience of large and interconnected entities under their supervision. Once established, the enhanced cyber risk management standards would help to reduce the potential impact of a cyber-attack or other cyber-related failure on the financial system. The advance notice of proposed rulemaking addresses five categories of cyber standards: (1) cyber risk governance; (2) cyber risk management; (3) internal dependency management; (4) external dependency management; and (5) incident response, cyber resilience, and situational awareness. We will continue to monitor any developments related to this proposed rulemaking.

Community Reinvestment Act Requirements

The CRA requires banking regulators to evaluate us and our banking subsidiaries in meeting the credit needs of our local communities, including providing credit to individuals residing in low- and moderate- income neighborhoods. The CRA requires each appropriate federal bank regulatory agency, in connection with its examination of a depository institution, to assess such institution's record in assessing and meeting the credit needs of the community served by that institution and assign ratings. The regulatory agency's assessment of the institution's record is made available to the public. These evaluations are also considered in evaluating mergers, acquisitions and applications to open a branch or facility and, in the case of a bank holding company that has elected financial holding company status, a CRA rating of "satisfactory" is required to commence certain new financial activities or to acquire a company engaged in such activities. We received a rating of "satisfactory" in our most-recent CRA evaluation.

Compensation

Our compensation practices are subject to oversight by the FRB. The federal banking regulators have provided guidance designed to ensure that incentive compensation arrangements at banking organizations take into account risk and are consistent with safe and sound practices. The guidance sets forth the following three key principles with respect to incentive compensation arrangements: (i) the arrangements should provide employees with incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk; (ii) the arrangements should be compatible with effective controls and risk management; and (iii) the arrangements should be supported by strong corporate governance. The guidance provides that supervisory findings with respect to incentive compensation will be incorporated, as appropriate, into the organization's supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The guidance also provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk management, control or governance processes pose a risk to the organization's safety and soundness.

During the second quarter of 2016, the U.S. financial regulators, including the FRB and the SEC, proposed revised rules on incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets (including the Parent Company and CBNA). The proposed revised rules would establish general qualitative requirements applicable to all covered entities, additional specific requirements for entities with total consolidated assets of at least $50 billion and further, more stringent requirements for those with total consolidated assets of at least $250 billion. The general qualitative requirements include (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation; (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss; (iii) establishing requirements for performance measures to appropriately balance risk and reward; (iv) requiring board of director oversight of incentive arrangements; and (v) mandating appropriate record-keeping. For larger financial institutions the proposed revised rules would also introduce additional requirements applicable only to "senior executive officers" and "significant risk-takers" (as defined in the proposed rules), including (i) limits on performance measures and leverage relating to performance targets; (ii) minimum deferral periods; and (iii) subjecting incentive compensation to possible downward adjustment, forfeiture and clawback. If the rules are adopted in the form proposed, they may restrict our flexibility with respect to the manner in which we structure compensation and adversely affect our ability to compete for talent.

Anti-Money Laundering

The USA PATRIOT Act, enacted in 2001 and renewed in 2006, substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Institutions must maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. We are prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence in dealings with foreign financial institutions and foreign customers. We also must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions. Recent laws provide law enforcement authorities with increased access to financial information maintained by banks.

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

In 2014, FinCEN, which drafts regulations implementing the USA PATRIOT Act and other anti-money laundering and bank secrecy act legislation, proposed a rule that would require financial institutions to obtain beneficial ownership information with respect to legal entities with which such institutions conduct business, subject to certain exclusions and exemptions. In May 2016, FinCEN issued its final rules with respect to customer due diligence requirements, and financial institutions that are subject to these final rules are required to comply by May 2018. Bank regulators are focusing their examinations on anti-money laundering compliance, and we continue to monitor and augment, where necessary, our anti-money laundering compliance programs.

Office of Foreign Assets Control Regulation

The U.S. has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control. The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to, making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. OFAC publishes, and routinely updates, lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, including the Specially Designated Nationals and Blocked Persons. We are responsible for, among other things, blocking accounts of and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. If we find a name on any transaction, account or wire transfer that is on an OFAC list, we must freeze such account, file a suspicious activity report and notify the appropriate authorities. Failure to comply with these sanctions could have serious legal and reputational consequences.

Regulation of Broker-Dealers

Our subsidiary CCMI is a registered broker-dealer with the SEC and, as a result, is subject to regulation and examination by the SEC, FINRA and other self-regulatory organizations. These regulations cover a broad range of issues, including capital requirements; sales and trading practices; use of client funds and securities; the conduct of directors, officers and employees; record-keeping and recording; supervisory procedures to prevent improper trading on material non-public information; qualification and licensing of sales personnel; and limitations on the extension of credit in securities transactions. In addition to federal registration, state securities commissions require the registration of certain broker-dealers.

Heightened Risk Governance Standards

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

Anti-Tying Restrictions

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

Commercial Real Estate Lending

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

- Total reported loans for construction, land development and other land represent 100% or more of the institution's total capital, or
- Total commercial real estate loans represent 300% or more of the institution's total capital, and the outstanding balance of the institution's commercial real estate loan portfolio has increased by 50% or more during the prior 36 months.

In addition, the Dodd-Frank Act contains provisions that may cause us to reduce the amount of our commercial real estate lending and increase the cost of borrowing, including rules relating to risk retention of securitized assets. Section 941 of the Dodd-Frank Act and implementing rules adopted by the U.S. financial services regulators, including the federal banking regulators and the SEC, require, among other things, a loan originator or a securitizer of asset-backed securities to retain a percentage of the credit risk of securitized assets.

Other Regulatory Matters

We and our subsidiaries and affiliates are subject to numerous examinations by federal and state banking regulators, as well as the SEC, FINRA and various state insurance and securities regulators. In some cases, regulatory agencies may take supervisory actions that may not be publicly disclosed, and such actions may restrict or limit our activities or activities of our subsidiaries. As part of our regular examination process, our and our banking subsidiaries' respective regulators may advise us or our banking subsidiaries to operate under various restrictions as a prudential matter. We and our subsidiaries have periodically received requests for information from regulatory authorities at the federal and state level, including from state insurance commissions, state attorneys general, federal agencies or law enforcement authorities, securities regulators and other regulatory authorities, concerning their business practices. Such requests are considered incidental to the normal conduct of business.

In order to remedy certain weaknesses, including weaknesses cited by our regulators, and to meet our significant regulatory and supervisory challenges, we believe we need to continue to make improvements to our processes, systems and controls. We expect to continue to dedicate significant resources and managerial time and attention to and to make significant investments in enhanced processes, systems and controls. This may increase our operational costs and limit our ability to implement aspects of our strategic plan or otherwise pursue certain business opportunities. We also expect to make restitution payments to our banking subsidiaries' customers, which could be significant, arising from certain customer compliance deficiencies and may be required to pay civil money penalties in connection with certain of these deficiencies. We have established reserves in respect of these future payments, but the amounts that we are ultimately obligated to pay could be in excess of our reserves. Moreover, if we are unsuccessful in remedying these weaknesses and meeting the enhanced supervisory requirements and expectations that apply to us and our banking subsidiaries, we could remain subject to existing restrictions or become subject to additional restrictions on our activities, supervisory actions or public enforcement actions, including the payment of civil money penalties.

Employees

As of December 31, 2016, we had approximately 17,600 FTEs, which included our approximately 17,200 full-time colleagues, 200 part-time colleagues and approximately 200 positions filled by temporary employees. None of our employees are parties to a collective bargaining agreement. We consider our relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements.

ITEM 1A. RISK FACTORS

We *are subject to a number of risks potentially impacting our business, financial condition, results of operations and cash flows. As a financial services organization, certain elements of risk are inherent in our transactions and operations and are present in the business decisions we make. We, therefore, encounter risk as part of the normal course of our business and we design risk management processes to help manage these risks. Our success is dependent on our ability to identify, understand and manage the risks presented by our business activities so that we can appropriately balance revenue generation and profitability. These risks include, but are not limited to, credit risk, market risk, liquidity risk, operational risk, model risk, technology, regulatory and legal risk and strategic and reputational risk. We discuss our principal risk management processes and, in appropriate places, related historical performance in the "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Governance" section in Part II, Item 7 included in this report.*

You should carefully consider the following risk factors that may affect our business, financial condition and results of operations. Other factors that could affect our business, financial condition and results of operation are discussed in the "Forward-Looking Statements" section above. However, there may be additional risks that are not presently material or known, and factors besides those discussed below, or in this or other reports that we file or furnish with the SEC, that could also adversely affect us.

Risks Related to Our Business

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

Our strategic plan, which we began to implement in the second half of 2013, involves four principal elements: (i) increasing revenue in both Consumer Banking and Commercial Banking; (ii) enhancing cost reduction efforts across the company; (iii) taking capital actions aimed at better aligning our capital structure with those of regional bank peers; and (iv) the beneficial impact of a rising interest rate environment on our asset-sensitive balance sheet. Our future success and the value of our stock will depend, in part, on our ability to effectively implement our strategic plan. There are risks and uncertainties, many of which are not within our control, associated with each element of our plan. In addition, certain of our key initiatives require regulatory approval, which may not be obtained on a timely basis, if at all. Moreover, even if we do obtain required regulatory approval, it may be conditioned on certain organizational changes, such as those discussed below, that could reduce the profitability of those initiatives. If we are not able to successfully execute our strategic plan, we may never achieve our indicative performance targets and any shortfall may be material.

In addition to the four principal elements of our strategic plan, we also anticipate that our ROTCE will be affected by a number of additional factors. We anticipate a benefit to our ROTCE from run off of our non-core portfolio, which we expect will be offset by the negative impact on our ROTCE of some deterioration in the credit environment as it returns to historical levels and a decline in gains on investment securities. We do not control many aspects of these factors (or others) and actual results could differ from our expectations materially, which could impair our ability to achieve our strategic ROTCE goals. See "Business Strategy" in Part I, Item 1 — Business**,** included in this report for further information.

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

As a result of and in addition to new legislation aimed at regulatory reform, such as the Dodd-Frank Act, and the increased capital and liquidity requirements introduced by the U.S. implementation of the Basel III framework (the capital components and the LCR as one of the two key liquidity components which have become effective), the federal banking agencies (the FRB, the OCC and the FDIC), as well as the CFPB, generally are taking a more stringent approach to supervising and regulating financial institutions and financial products and services over which they exercise their respective supervisory authorities. We, our two banking subsidiaries and our products and services are all subject to greater supervisory scrutiny and enhanced supervisory requirements and expectations. We expect to continue to face greater supervisory scrutiny and enhanced supervisory requirements in the foreseeable future.

We also have been required to make improvements to our overall compliance and operational risk management programs and practices in order to comply with enhanced supervisory requirements and expectations and to address weaknesses in retail credit risk management, liquidity risk management, model risk management, outsourcing and vendor risk management and related oversight and monitoring practices and tools. Our and our banking subsidiaries' consumer compliance program and controls are being enhanced in a variety of areas, including processes relating to fair lending and mortgage servicing and origination. In addition to the foregoing, as part of the supervisory and examination process, from time to time we and our banking subsidiaries may become, and currently are, subject to prudential restrictions on our activities. Similarly, under the Bank Holding Company Act, currently we may not be able to engage in certain categories of new activities or acquire shares or control of other companies other than in connection with internal reorganizations.

While we have made significant progress in enhancing our compliance and risk programs, if we are unsuccessful in remedying these weaknesses and meeting the enhanced supervisory requirements and expectations that apply to us and our banking subsidiaries, we could remain subject to existing restrictions or become subject to additional restrictions on our activities, informal (nonpublic) or formal (public) supervisory actions or public enforcement actions, including the payment of civil money penalties. Any such actions or restrictions, if and in whatever manner imposed, would likely increase our costs and could limit our ability to implement our strategic plans and expand our business, and as a result could have a material adverse effect on our business, financial condition or results of operations. For more information regarding ongoing regulatory actions in which we are involved and certain identified past practices and policies for which we faced formal administrative enforcement actions, see Note 17 "Commitments and Contingencies" and Note 20 "Regulatory Matters" to our audited Consolidated Financial Statements included in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report, for further discussion.

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

Net interest income historically has been, and in the near-to-medium term we anticipate that it will remain, a significant component of our total revenue. This is due to the fact that a high percentage of our assets and liabilities have been and will likely continue to be in the form of interest-bearing or interest-related instruments. Changes in interest rates can have a material effect on many areas of our business, including net interest income, deposit costs, loan volume and delinquency, and value of our mortgage servicing rights. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Open Market Committee. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect our ability to originate loans and obtain deposits and the fair value of our financial assets and liabilities. If the interest rates on our interest-bearing liabilities increase at a faster pace than the interest rates on our interest earning assets, our net interest income may decline and, with it, a decline in our earnings may occur. Our net interest income and our earnings would be similarly affected if the interest rates on our interest earning assets declined at a faster pace than the interest rates on our interest-bearing liabilities.

We cannot control or predict with certainty changes in interest rates. Global, national, regional and local economic conditions, competitive pressures and the policies of regulatory authorities, including monetary policies of the FRB, affect interest income and interest expense. Although we have policies and procedures designed to manage the risks associated with changes in market interest rates, as further discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Governance" in Part II, Item 7, included in this report, changes in interest rates still may have an adverse effect on our profitability.

If our ongoing assumptions regarding borrower behavior are wrong or overall economic conditions are significantly different than we anticipate, then our risk mitigation may be insufficient to protect against interest rate risk and our net income would be adversely affected.

We could fail to attract, retain or motivate highly skilled and qualified personnel, including our senior management, other key employees or members of our Board, which could impair our ability to successfully execute our strategic plan and otherwise adversely affect our business.

A cornerstone of our strategic plan involves the hiring of highly skilled and qualified personnel. Accordingly, our ability to implement our strategic plan and our future success depends on our ability to attract, retain and motivate highly skilled and qualified personnel, including our senior management and other key employees and directors, competitive with our peers. The marketplace for skilled personnel is becoming more competitive, which means the cost of hiring, incentivizing and retaining skilled personnel may continue to increase. The failure to attract or retain, including as a result of an untimely death or illness of key personnel, or replace a sufficient number of appropriately skilled and key personnel could place us at a significant competitive disadvantage and prevent us from successfully implementing our strategy, which could impair our ability to implement our strategic plan successfully, achieve our performance targets and otherwise have a material adverse effect on our business, financial condition and results of operations.

In May 2016, the FRB, other federal banking agencies and the Securities and Exchange Commission jointly published re-proposed rules (originally proposed in April 2011) designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at covered financial institutions, which includes a bank or bank holding company with $1 billion or more of assets. Although the re-proposed rules include more stringent requirements, particularly for larger institutions, it cannot be determined at this time whether or when a final rule will be adopted. Compliance with such a final rule may substantially affect the manner in which we structure compensation for our executives and other employees. Depending on the nature and application of the final rules, we may not be able to successfully compete with certain financial institutions and other companies that are not subject to some or all of the rules to retain and attract executives and other high performing employees. If this were to occur, our business, financial condition and results of operations could be adversely affected, perhaps materially. For a more detailed discussion of these proposed rules, see “Regulation and Supervision” in Part I, Item 1 — Business, included in this report.

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

Liquidity risk is the risk that we will not be able to meet our obligations, including funding commitments, as they come due. This risk is inherent in our operations and can be heightened by a number of factors, including an over-reliance on a particular source of funding (including, for example, secured FHLB advances), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Like many banking groups, our reliance on customer deposits to meet a considerable portion of our funding has grown over recent years, and we continue to seek to increase the proportion of our funding represented by customer deposits. However, these deposits are subject to fluctuation due to certain factors outside our control, such as a loss of confidence by customers in us or in the banking sector generally, increasing competitive pressures for retail or corporate customer deposits, changes in interest rates and returns on other investment classes, which could result in a significant outflow of deposits within a short period of time. To the extent there is heightened competition among U.S. banks for retail customer deposits, this competition may increase the cost of procuring new deposits and/or retaining existing deposits, and otherwise negatively affect our ability to grow our deposit base. An inability to grow, or any material decrease in, our deposits could have a material adverse effect on our ability to satisfy our liquidity needs.

Maintaining a diverse and appropriate funding strategy for our assets consistent with our wider strategic risk appetite and plan remains challenging, and any tightening of credit markets could have a material adverse impact on us. In particular, there is a risk that corporate and financial institution counterparties may seek to reduce their credit exposures to banks and other financial institutions (for example, reductions in unsecured deposits supplied by these counterparties), which may cause funding from these sources to no longer be available. Under these circumstances, we may need to seek funds from alternative sources, potentially at higher costs than has previously been the case, or may be required to consider disposals of other assets not previously identified for disposal, in order to reduce our funding commitments.

A reduction in our credit ratings, which are based on a number of factors, could have a material adverse effect on our business, financial condition and results of operations.

Credit ratings affect the cost and other terms upon which we are able to obtain funding. Rating agencies regularly evaluate us, and their ratings are based on a number of factors, including our financial strength. Other factors considered by rating agencies include conditions affecting the financial services industry generally. Any downgrade in our ratings would likely increase our borrowing costs, could limit our access to capital markets, and otherwise adversely affect our business. For example, a ratings downgrade could adversely affect our ability to sell or market certain of our securities, including long-term debt, engage in certain longer-term derivatives transactions and retain our customers, particularly corporate customers who may require a minimum rating threshold in order to place funds with us. In addition, under the terms of certain of our derivatives contracts, we may be required to maintain a minimum credit rating or have to post additional collateral or terminate such contracts. Any of these results of a rating downgrade could increase our cost of funding, reduce our liquidity and have adverse effects on our business, financial condition and results of operations.

Our financial performance may be adversely affected by deterioration in borrower credit quality, particularly in the New England, Mid-Atlantic and Midwest regions, where our operations are concentrated.

We have exposure to many different industries and risks arising from actual or perceived changes in credit quality and uncertainty over the recoverability of amounts due from borrowers is inherent in our businesses. Our exposure may be exacerbated by the geographic concentration of our operations, which are predominately located in the New England, Mid-Atlantic and Midwest regions. The credit quality of our borrowers may deteriorate for a number of reasons that are outside our control, including as a result of prevailing economic and market conditions and asset valuation. The trends and risks affecting borrower credit quality, particularly in the New England, Mid-Atlantic and Midwest regions, have caused, and in the future may cause, us to experience impairment charges, increased repurchase demands, higher costs, additional write-downs and losses and an inability to engage in routine funding transactions, which could have a material adverse effect on our business, financial condition and results of operations.

Our framework for managing risks may not be effective in mitigating risk and loss.

Our risk management framework is made up of various processes and strategies to manage our risk exposure. The framework to manage risk, including the framework’s underlying assumptions, may not be effective under all conditions and circumstances. If the risk management framework proves ineffective, we could suffer unexpected losses and could be materially adversely affected.

One of the main types of risks inherent in our business is credit risk. An important feature of our credit risk management system is to employ an internal credit risk control system through which we identify, measure, monitor and mitigate existing and emerging credit risk of our customers. As this process involves detailed analyses of the customer or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a customer or credit risk, which may result in our exposure to higher credit risks than indicated by our risk rating system.

In addition, we have undertaken certain actions to enhance our credit policies and guidelines to address potential risks associated with particular industries or types of customers, as discussed in more detail under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Governance" and "— Market Risk" in Part II, Item 7, included in this report. However, we may not be able to effectively implement these initiatives, or consistently follow and refine our credit risk management system. If any of the foregoing were to occur, it may result in an increase in the level of nonperforming loans and a higher risk exposure for us, which could have a material adverse effect on us.

Our financial and accounting estimates and risk management framework rely on analytical forecasting and models.

The processes we use to estimate our inherent loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical and forecasting models. Some of our tools and metrics for managing risk are based upon our use of observed historical market behavior. We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy and calculating regulatory capital levels, as well as estimating the value of financial instruments and balance sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating such models will be adversely affected due to the inadequacy of that information. Moreover, our models may fail to predict future risk exposures if the information used in the model is incorrect, obsolete or not sufficiently comparable to actual events as they occur. We seek to incorporate appropriate historical data in our models, but the range of market values and behaviors reflected in any period of historical data is not at all times predictive of future developments in any particular period and the period of data we incorporate into our models may turn out to be inappropriate for the future period being modeled. In such case, our ability to manage risk would be limited and our risk exposure and losses could be significantly greater than our models indicated. In addition, if existing or potential customers believe our risk management is inadequate, they could take their business elsewhere. This could harm our reputation as well as our revenues and profits. Finally, information we provide to our regulators based on poorly designed or implemented models could also be inaccurate or misleading. Some of the decisions that our regulators make, including those related to capital distributions to our stockholders, could be affected adversely due to their perception that the quality of the models used to generate the relevant information is insufficient.

The preparation of our financial statements requires the use of estimates that may vary from actual results. Particularly, various factors may cause our ALLL to increase.

The preparation of audited consolidated financial statements in conformity with GAAP requires management to make significant estimates that affect the financial statements. Our most critical accounting estimate is the ALLL. The ALLL is a reserve established through a provision for loan and lease losses charged to expense and represents our estimate of incurred but unrealized losses within the existing portfolio of loans. The ALLL is necessary to reserve for estimated loan and lease losses and risks inherent in the loan portfolio. The level of the ALLL reflects our ongoing evaluation of industry concentrations, specific credit risks, loan and lease loss experience, current loan portfolio quality, present economic, political and regulatory conditions and incurred losses inherent in the current loan portfolio.

The determination of the appropriate level of the ALLL inherently involves a degree of subjectivity and requires that we make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, the stagnation of certain economic indicators that we are more susceptible to, such as unemployment and real estate values, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside our control, may require an increase in the ALLL. In addition, bank regulatory agencies periodically review our ALLL and may require an increase in the ALLL or the recognition of further loan charge-offs, based on judgments that can differ from those of our own management. In addition, if charge-offs in future periods exceed the ALLL—that is, if the ALLL is inadequate—we will need additional loan and lease loss provisions to increase the ALLL. Should such additional provisions become necessary, they would result in a decrease in net income and capital and may have a material adverse effect on us.

The value of our goodwill may decline in the future.

As of December 31, 2016, we had $6.9 billion of goodwill. A significant decline in our expected future cash flows, a significant adverse change in the business climate, substantially slower economic growth or a significant and sustained decline in the price of our common stock, any or all of which could be materially impacted by many of the risk factors discussed herein, may necessitate our taking charges in the future related to the impairment of our goodwill. If we were to conclude that a future write-down of our goodwill is necessary, we would record the appropriate charge, which could be material to our operations. For additional information regarding our goodwill impairment testing, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates" in Part II, Item 7, included in this report.

Operational risks are inherent in our businesses.

Our operations depend on our ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations. Operational risk and losses can result from internal and external fraud; errors by employees or third parties; failure to document transactions properly or to obtain proper authorization; failure to comply with applicable regulatory requirements and conduct of business rules; equipment failures, including those caused by natural disasters or by electrical, telecommunications or other essential utility outages; business continuity and data security system failures, including those caused by computer viruses, cyber-attacks or unforeseen problems encountered while implementing major new computer systems or upgrades to existing systems; or the inadequacy or failure of systems and controls, including those of our suppliers or counterparties. Although we have implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures, identifying and rectifying weaknesses in existing procedures and training staff, it is not possible to be certain that such actions have been or will be effective in controlling each of the operational risks faced by us. Any weakness in these systems or controls, or any breaches or alleged breaches of such laws or regulations, could result in increased regulatory supervision, enforcement actions and other disciplinary action, and have an adverse impact on our business, applicable authorizations and licenses, reputation and results of operations.

The financial services industry, including the banking sector, is undergoing rapid technological changes as a result of competition and changes in the legal and regulatory framework, and we may not be able to compete effectively as a result of these changes.

The financial services industry, including the banking sector, is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. In addition, new, unexpected technological changes could have a disruptive effect on the way banks offer products and services. We believe our success depends, to a great extent, on our ability to address customer needs by using technology to offer products and services that provide convenience to customers and to create additional efficiencies in our operations. However, we may not be able to, among other things, keep up with the rapid pace of technological changes, effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. As a result, our ability to compete effectively to attract or retain new business may be impaired, and our business, financial condition or results of operations may be adversely affected.

In addition, changes in the legal and regulatory framework under which we operate require us to update our information systems to ensure compliance. Our need to review and evaluate the impact of ongoing rule proposals, final rules and implementation guidance from regulators further complicates the development and implementation of new information systems for our business. Also, recent regulatory guidance has focused on the need for financial institutions to perform increased due diligence and ongoing monitoring of third-party vendor relationships, thus increasing the scope of management involvement and decreasing the efficiency otherwise resulting from our relationships with third-party technology providers. Given the significant number of ongoing regulatory reform initiatives, it is possible that we incur higher than expected information technology costs in order to comply with current and impending regulations. See "—Supervisory requirements and expectations on us as a financial holding company and a bank holding company*,* our need to make improvements and devote resources to various aspects of our controls, processes, policies and procedures, and any regulator-imposed limits on our activities, could limit our ability to implement our strategic plan, expand our business, improve our financial performance and make capital distributions to our stockholders."

We are subject to a variety of cybersecurity risks that, if realized, could adversely affect how we conduct our business.

Information security risks for large financial institutions such as CFG have increased significantly in recent years in part because of the proliferation of new technologies, such as Internet and mobile banking to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, nation-states, activists and other external parties. Third parties with whom we or our customers do business also present operational and information security risks to us, including security breaches or failures of their own systems. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. In addition, to access our products and services, our customers may use personal computers, smartphones, tablets, and other mobile devices that are beyond our control environment. Although we believe that we have appropriate information security procedures and controls, our technologies, systems, networks and our customers' devices may be the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information. We are under continuous threat of loss due to cyber-attacks, especially as we continue to expand customer capabilities to utilize the Internet and other remote channels to transact business. Two of the most significant cyber-attack risks that we face are e-fraud and loss of sensitive customer data. Loss from e-fraud occurs when cybercriminals extract funds directly from customers' or our accounts using fraudulent schemes that may include Internet-based funds transfers. We have been subject to a number of e-fraud incidents historically. We have also been subject to attempts to steal sensitive customer data, such as account numbers and social security numbers, through unauthorized access to our computer systems including computer hacking. Such attacks are less frequent but could present significant reputational, legal and regulatory costs to us if successful.

Recently, there has been a series of distributed denial of service attacks on financial services companies, including us. Distributed denial of service attacks are designed to saturate the targeted online network with excessive amounts of network traffic, resulting in slow response times, or in some cases, causing the site to be temporarily unavailable. Generally, these attacks are conducted to interrupt or suspend a company's access to Internet service. The attacks can adversely affect the performance of a company's website and in some instances prevent customers from accessing a company's website. We have implemented certain technology protections such as Customer Profiling and Step-Up Authentication to be in compliance with the FFIEC Authentication in Internet Banking Environment ("AIBE") guidelines. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our layers of defense or to investigate and remediate any information security vulnerabilities. The techniques used by cyber criminals change frequently, may not be recognized until launched and can be initiated from a variety of sources, including terrorist organizations and hostile foreign governments. These actors may attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to data or our systems. In the event that a cyber-attack is successful, our business, financial condition or results of operations may be adversely affected. For a discussion of the guidance that federal banking regulators have released regarding cybersecurity and cyber risk management standards, see "Regulation and Supervision" in Part I, Item 1 — Business, included in this report.

We rely heavily on communications and information systems to conduct our business.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems, including due to hacking or other similar attempts to breach information technology security protocols, could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. Although we have established policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that these policies and procedures will be successful and that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability.

We rely on third parties for the performance of a significant portion of our information technology.

We rely on third parties for the performance of a significant portion of our information technology functions and the provision of information technology and business process services. For example, (i) certain components and services relating to our online banking system rely on data communications networks operated by unaffiliated third parties, (ii) many of our applications are hosted or maintained by third parties, including our Commercial Loan System, which is hosted and maintained by Automated Financial Systems, Inc., and (iii) our core deposits system is maintained by Fidelity Information Services, Inc. Also, in 2015, we entered into an agreement with IBM Corporation for the provision of a wide range of information technology support services, including end user, data center, network, mainframe, storage and database services. The success of our business depends in part on the continuing ability of these (and other) third parties to perform these functions and services in a timely and satisfactory manner. If we experience a disruption in the provision of any functions or services performed by third parties, we may have difficulty in finding alternate providers on terms favorable to us and in reasonable timeframes. If these services are not performed in a satisfactory manner, we would not be able to serve our customers well. In either situation, our business could incur significant costs and be adversely affected.

We are exposed to reputational risk and the risk of damage to our brands and the brands of our affiliates.

Our success and results depend, in part, on our reputation and the strength of our brands. We are vulnerable to adverse market perception as we operate in an industry where integrity, customer trust and confidence are paramount. We are exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory or other investigations or actions, press speculation and negative publicity, among other factors, could damage our brands or reputation. Our brands and reputation could also be harmed if we sell products or services that do not perform as expected or customers' expectations for the product are not satisfied.

We may be adversely affected by unpredictable catastrophic events or terrorist attacks and our business continuity and disaster recovery plans may not adequately protect us from serious disaster.

The occurrence of catastrophic events such as hurricanes, tropical storms, tornadoes and other large-scale catastrophes and terrorist attacks could adversely affect our business, financial condition or results of operations if a catastrophe rendered both our production data center in Rhode Island and our recovery data center in North Carolina unusable. Although we enhanced our disaster recovery capabilities in 2016 through the completion of the new, out-of-region backup data center in North Carolina, there can be no assurance that our current disaster recovery plans and capabilities will adequately protect us from serious disaster.

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

Our net DTAs are subject to an evaluation of whether it is more likely than not that they will be realized for financial statement purposes. In making this determination, we consider all positive and negative evidence available, including the impact of recent operating results, as well as potential carry-back of tax to prior years' taxable income, reversals of existing taxable temporary differences, tax planning strategies and projected earnings within the statutory tax loss carryover period. We have determined that the DTAs are more likely than not to be realized at December 31, 2016 (except for $107 million related to state net operating losses and state tax credits for which a valuation allowance was established). If we were to conclude that a significant portion of the DTAs were not more likely than not to be realized, the required valuation allowance could adversely affect our financial condition and results of operations.

We maintain a significant investment in projects that generate tax credits, which we may not be able to fully utilize, or, if utilized, may be subject to recapture or restructuring.

At December 31, 2016, we maintained an investment of approximately $1.0 billion in entities for which we receive allocations of tax credits, which we utilize to offset our taxable income. We recognized $70 million in credits for the year ended December 31, 2016. As of December 31, 2016, all tax credits have been utilized to offset taxable income. Substantially all of these tax credits are related to development projects that are subject to ongoing compliance requirements over certain periods of time to fully realize their value. If these projects are not operated in full compliance with the required terms, the tax credits could be subject to recapture or restructuring. Further, we may not be able to utilize any future tax credits. If we are unable to utilize our tax credits or, if our tax credits are subject to recapture or restructuring, it could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Industry

Any deterioration in national economic conditions could have a material adverse effect on our business, financial condition and results of operations.

Our business is affected by national economic conditions, as well as perceptions of those conditions and future economic prospects. Changes in such economic conditions are not predictable and cannot be controlled. Adverse economic conditions could require us to charge off a higher percentage of loans and increase the provision for credit losses, which would reduce our net income and otherwise have a material adverse effect on our business, financial condition and results of operations. For example, our business was significantly affected by the global economic and financial crisis that began in 2008. The falling home prices, increased rate of foreclosure and high levels of unemployment in the United States triggered significant write-downs by us and other financial institutions. These write-downs adversely impacted our financial results in material respects. Although the U.S. economy continues to recover, an interruption or reversal of this recovery would adversely affect the financial services industry and banking sector.

We operate in an industry that is highly competitive, which could result in losing business or margin declines and have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive industry. The industry could become even more competitive as a result of reform of the financial services industry resulting from the Dodd-Frank Act and other legislative, regulatory and technological changes, as well as continued consolidation. We face aggressive competition from other domestic and foreign lending institutions and from numerous other providers of financial services, including non-banking financial institutions that are not subject to the same regulatory restrictions as banks and bank holding companies, securities firms and insurance companies, and competitors that may have greater financial resources.

With respect to non-banking financial institutions, technology and other changes have lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks. For example, consumers can maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. Some of our non-bank competitors are not subject to the same extensive regulations we are and, therefore, may have greater flexibility in competing for business. As a result of these and other sources of competition, we could lose business to competitors or be forced to price products and services on less advantageous terms to retain or attract clients, either of which would adversely affect our profitability and business.

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

Financial services institutions that deal with each other are interconnected as a result of trading, investment, liquidity management, clearing, counterparty and other relationships. Within the financial services industry, the default by any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems and losses or defaults by other institutions, as the commercial and financial soundness of many financial institutions are closely related as a result of these credit, trading, clearing and other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by various institutions. This systemic risk may adversely affect financial intermediaries, such as clearing agencies, banks and exchanges with which we interact on a daily basis, or key funding providers such as the FHLBs, any of which could have a material adverse effect on our access to liquidity or otherwise have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Regulations Governing Our Industry

As a financial holding company and a bank holding company, we are subject to comprehensive regulation that could have a material adverse effect on our business and results of operations.

As a financial holding company and a bank holding company, we are subject to comprehensive regulation, supervision and examination by the FRB. In addition, CBNA is subject to comprehensive regulation, supervision and examination by the OCC and CBPA is subject to comprehensive regulation, supervision and examination by the FDIC and the PA Banking Department. Our regulators supervise us through regular examinations and other means that allow the regulators to gauge management's ability to identify, assess and control risk in all areas of operations in a safe and sound manner and to ensure compliance with laws and regulations. In the course of their supervision and examinations, our regulators may require improvements in various areas. If we are unable to implement and maintain any required actions in a timely and effective manner, we could become subject to informal (non-public) or formal (public) supervisory actions and public enforcement orders that could lead to significant restrictions on our existing business or on our ability to engage in any new business. Such forms of supervisory action could include, without limitation, written agreements, cease and desist orders, and consent orders and may, among other things, result in restrictions on our ability to pay dividends, requirements to increase capital, restrictions on our activities, the imposition of civil monetary penalties, and enforcement of such actions through injunctions or restraining orders. We could also be required to dispose of certain assets and liabilities within a prescribed period. The terms of any such supervisory or enforcement action could have a material adverse effect on our business, financial condition and results of operations.

We are a bank holding company that has elected to become a financial holding company pursuant to the Bank Holding Company Act. Financial holding companies are allowed to engage in certain financial activities in which a bank holding company is not otherwise permitted to engage. However, to maintain financial holding company status, a bank holding company (and all of its depository institution subsidiaries) must be "well capitalized" and "well managed." If a bank holding company ceases to meet these capital and management requirements, there are many penalties it would be faced with, including (i) the FRB may impose limitations or conditions on the conduct of its activities, and (ii) it may not undertake any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the FRB. If a company does not return to compliance within 180 days, which period may be extended, the FRB may require divestiture of that company's depository institutions. To the extent we do not meet the requirements to be a financial holding company in the future, there could be a material adverse effect on our business, financial condition and results of operations.

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

From time to time, bank regulatory agencies take supervisory actions that restrict or limit a financial institution's activities and lead it to raise capital or subject it to other requirements. Directives issued to enforce such actions may be confidential and thus, in some instances, we are not permitted to publicly disclose these actions. In addition, as part of our regular examination process, our and our banking subsidiaries' respective regulators may advise us or our banking subsidiaries to operate under various restrictions as a prudential matter. Any such actions or restrictions, if and in whatever manner imposed, could adversely affect our costs and revenues. Moreover, efforts to comply with any such nonpublic supervisory actions or restrictions may require material investments in additional resources and systems, as well as a significant commitment of managerial time and attention. As a result, such supervisory actions or restrictions, if and in whatever manner imposed, could have a material adverse effect on our business and results of operations; and, in certain instances, we may not be able to publicly disclose these matters.

The regulatory environment in which we operate could have a material adverse effect on our business and earnings.

We are heavily regulated by bank and other regulatory agencies at the federal and state levels. This regulatory oversight is established to protect depositors, the FDIC's Deposit Insurance Fund, and the banking system as a whole, not security holders. Changes to statutes, regulations, rules or policies including the interpretation or implementation of statutes, regulations, rules or policies could affect us in substantial and unpredictable ways including subjecting us to additional costs, limiting the types of financial services and other products we may offer, limiting our ability to pursue acquisitions and increasing the ability of third parties, including non-banks, to offer competing financial services and products.

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

We are subject to several capital adequacy and liquidity standards. To the extent that we are unable to meet these standards, our ability to make distributions of capital will be limited and we may be subject to additional supervisory actions and limitations on our activities. See "Regulation and Supervision" in Part I, Item 1 — Business, and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital" and "— Liquidity" in Part II, Item 7, included in this report, for further discussion of the regulations to which we are subject.

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

FRB policy historically required bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. The Dodd-Frank Act codified this policy as a statutory requirement. This support may be required by the FRB at times when we might otherwise determine not to provide it or when doing so is not otherwise in the interests of CFG or our stockholders or creditors, and may include one or more of the following:

- We may be compelled to contribute capital to our subsidiary banks, including by engaging in a public offering to raise such capital. Furthermore, any extensions of credit from us to our banking subsidiaries that are included in the relevant bank's capital would be subordinate in right of payment to depositors and certain other indebtedness of such subsidiary banks.
- In the event of a bank holding company's bankruptcy, any commitment that the bank holding company had been required to make to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.
- In certain circumstances one of our banking subsidiaries could be assessed for losses incurred by the other. In addition, in the event of impairment of the capital stock of one of our banking subsidiaries, we, as our banking subsidiary's stockholder, could be required to pay such deficiency.

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

As a bank holding company, we are a separate and distinct legal entity from our banking subsidiaries: CBNA and CBPA. We typically receive substantially all of our revenue from dividends from our banking subsidiaries. These dividends are the principal source of funds to pay dividends on our equity and interest and principal on our debt. Various federal and/or state laws and regulations, as well as regulatory expectations, limit the amount of dividends that our banking subsidiaries may pay to us. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event CBNA or CPBA is unable to pay dividends to us, we may not be able to service debt, pay obligations or pay dividends on our common stock. The inability to receive dividends from CBNA or CPBA could have a material adverse effect on our business, financial condition and results of operations.

See "Supervision and Regulation" in Part I, Item 1 — Business, and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital" in Part II, Item 7, included in this report.

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

We may become or are involved, from time to time, in reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business. These regulatory actions involve, among other matters, accounting, consumer compliance and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief that may require changes to our business or otherwise materially impact our business.

In regulatory actions, such as those referred to above, it is inherently difficult to determine whether any loss is probable or whether it is possible to reasonably estimate the amount of any loss. We cannot predict with certainty if, how or when such proceedings will be resolved or what the eventual fine, penalty or other relief, conditions or restrictions, if any, may be, particularly for actions that are in their early stages of investigation. We expect to make significant restitution payments to our banking subsidiaries' customers arising from certain of the consumer compliance issues and also expect to pay civil money penalties in connection with certain of these issues. Adverse regulatory actions could have a material adverse effect on our business, financial condition and results of operations.

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

Our operations are diverse and complex and we operate in legal and regulatory environments that expose us to potentially significant litigation risk. In the normal course of business, we have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our activities as a financial services institution, including with respect to alleged unfair or deceptive business practices and mis-selling of certain products. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or in financial distress. Moreover, a number of recent judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed "lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or stockholders. This could increase the amount of private litigation to which we are subject. For more information regarding ongoing significant legal proceedings in which we are involved and certain identified past practices and policies for which we could face potential civil litigation, see Note 17 "Commitments and Contingencies" to our audited Consolidated Financial Statements included in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report, for further discussion.

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

Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial-services industry, addressing, among other things, (i) systemic risk, (ii) capital adequacy, (iii) consumer financial protection, (iv) interchange fees, (v) mortgage lending practices, and (vi) regulation of derivatives and securities markets. A significant number of the provisions of the Dodd-Frank Act still require extensive rulemaking and interpretation by regulatory authorities. In several cases, authorities have extended implementation periods and delayed effective dates. Accordingly, in many respects the ultimate impact of the Dodd-Frank Act and its effects on the U.S. financial system and on us will not be known for an extended period of time. See "Regulation and Supervision" in Part I, Item 1 — Business, included in this report, for further discussion of the regulations to which we are subject.

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

The CFPB's residential mortgage regulations could adversely affect our business, financial condition or results of operations.

The CFPB finalized a number of significant rules that will impact nearly every aspect of the lifecycle of a residential mortgage. These rules implement the Dodd-Frank Act amendments to the Equal Credit Opportunity Act, the Truth in Lending Act and the Real Estate Settlement Procedures Act. The final rules require banks to, among other things: (i) develop and implement procedures to ensure compliance with a new "ability to repay" standard and identify whether a loan meets a new definition for a "qualified mortgage;" (ii) implement new or revised disclosures, policies and procedures for servicing mortgages including, but not limited to, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower's principal residence; (iii) comply with additional restrictions on mortgage loan originator hiring and compensation; (iv) comply with new disclosure requirements and standards for appraisals and certain financial products; and (v) maintain escrow accounts for "higher priced mortgage loans" for a longer period of time. These new rules create operational and strategic challenges for us, as we are both a mortgage originator and a servicer. For example, business models for cost, pricing, delivery, compensation and risk management will need to be reevaluated and potentially revised, perhaps substantially. Additionally, programming changes and enhancements to systems will be necessary to comply with the new rules. We also expect additional rulemaking affecting our residential mortgage business to be forthcoming. These rules and any other new regulatory requirements promulgated by the CFPB and state regulatory authorities could require changes to our business, in addition to the changes we have been required to make thus far. Such changes would result in increased compliance costs and potential changes to our product offerings, which would have an adverse effect on the revenue derived from such business.

The Dodd-Frank Act's consumer protection regulations could adversely affect our business, financial condition or results of operations.

The FRB enacted consumer protection regulations related to automated overdraft payment programs offered by financial institutions. Prior to the enactment of these regulations, our overdraft and insufficient funds fees represented a significant amount of noninterest fees. Since taking effect on July 1, 2010, the fees received by us for automated overdraft payment services have decreased, thereby adversely impacting our noninterest income. Complying with these regulations has resulted in increased operational costs for us, which may continue to rise. The actual impact of these regulations in future periods could vary due to a variety of factors, including changes in customer behavior, economic conditions and other factors, which could adversely affect our business, financial condition or results of operations. The CFPB has since then published additional studies of overdraft practices and has announced that it is considering enacting further regulations regarding overdrafts and related services.

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

In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations, and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief and/or monetary penalties. The Dodd-Frank Act and accompanying regulations, including regulations to be promulgated by the CFPB, are being phased in over time, and while some regulations have been promulgated, many others have not yet been proposed or finalized. For example, the CFPB has announced that it is considering new rules regarding debt collection practices, and has proposed new regulations of prepaid accounts and proposed amendments to its regulations implementing the Home Mortgage Disclosure Act. We cannot predict the terms of all of the final regulations, their intended consequences or how such regulations will affect us or our industry.

The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

Compliance with anti-money laundering and anti-terrorism financing rules involve significant cost and effort.

We are subject to rules and regulations regarding money laundering and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant financial burden on banks and other financial institutions and poses significant technical challenges. Although we believe our current policies and procedures are sufficient to comply with applicable rules and regulations, we cannot guarantee that our anti-money laundering and anti-terrorism financing policies and procedures completely prevent situations of money laundering or terrorism financing. Any such failure events may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on our business, financial condition or results of operations.

We may become subject to more stringent regulatory requirements and activity restrictions, or have to restructure, if the FRB and FDIC determine that our resolution plan is not credible.

FRB and FDIC regulations require bank holding companies with more than $50 billion in assets to submit resolution plans that, in the event of material financial distress or failure, establish the rapid, orderly and systemically safe liquidation of the company under the U.S. Bankruptcy Code. Separately, insured depository institutions with more than $50 billion in assets must submit to the FDIC a resolution plan whereby they can be resolved in a manner that is orderly and that ensures that depositors will receive access to insured funds within certain required timeframes. If the FRB and the FDIC jointly determine that the resolution plan of a bank holding company is not credible, and the company fails to cure the deficiencies in a timely manner, then the FRB and the FDIC may jointly impose on the company, or on any of its subsidiaries, more stringent capital, leverage or liquidity requirements or restrictions on growth, activities or operations, or require the divestment of certain assets or operations. If the FRB and the FDIC determine that our resolution plan is not credible or would not facilitate our orderly resolution under the U.S. Bankruptcy Code, we could become subject to more stringent regulatory requirements or business restrictions, or have to divest certain of our assets or businesses. Any such measures could have a material adverse effect on our business, financial condition or results of operations.

Risks Related to our Common Stock

Our stock price may be volatile, and you could lose all or part of your investment as a result.

You should consider an investment in our common stock to be risky, and you should invest in our common stock only if you can withstand a significant loss and wide fluctuation in the market value of your investment. The market price of our common stock could be subject to wide fluctuations in response to, among other things, the factors described in this "Risk Factors" section, and other factors, some of which are beyond our control. These factors include:

- quarterly variations in our results of operations or the quarterly financial results of companies perceived to be similar to us;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- our announcements or our competitors' announcements regarding new products or services, enhancements, significant contracts, acquisitions or strategic investments;
- fluctuations in the market valuations of companies perceived by investors to be comparable to us;
- future sales of our common stock;
- additions or departures of members of our senior management or other key personnel;
- changes in industry conditions or perceptions; and
- changes in applicable laws, rules or regulations and other dynamics.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market price of equity securities of many companies. These fluctuations have often been unrelated or disproportionate to the operating performance of these companies.

These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, loss of investor confidence, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock.

If any of the foregoing occurs, it could cause our stock price to fall and may expose us to securities class action litigation that, even if unsuccessful, could be costly to defend and a distraction to management.

We may not pay cash dividends on our common stock.

Holders of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock. Also, as a bank holding company, our ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the rules of the FRB regarding capital adequacy and dividends. Additionally, we are required to submit annual capital plans to the FRB for review before we can take certain capital actions, including declaring and paying dividends and repurchasing or redeeming capital securities. If our capital plan or any amendment to our capital plan is objected to for any reason, our ability to declare and pay dividends on our capital stock may be limited. Further, if we are unable to satisfy the capital requirements applicable to us for any reason, we may be limited in our ability to declare and pay dividends on our capital stock. See "Regulation and Supervision" in Part I, Item 1 — Business, included in this report, for further discussion of the regulations to which we are subject.

"Anti-takeover" provisions and the regulations to which we are subject may make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to stockholders.

We are a bank holding company incorporated in the state of Delaware. Anti-takeover provisions in Delaware law and our amended and restated certificate of incorporation and amended and restated bylaws, as well as regulatory approvals that would be required under federal law, could make it more difficult for a third party to take control of us and may prevent stockholders from receiving a premium for their shares of our common stock. These provisions could adversely affect the market price of our common stock and could reduce the amount that stockholders might get if we are sold.

We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our Board and by providing our Board with more time to assess any acquisition proposal. However, these provisions apply even if the offer may be determined to be beneficial by some stockholders and could delay or prevent an acquisition that our Board determines is not in our best interest and that of our stockholders.

Furthermore, banking laws impose notice, approval and ongoing regulatory requirements on any stockholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution. These laws include the Bank Holding Company Act and the Change in Bank Control Act.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters is in Providence, Rhode Island. As of December 31, 2016, we leased approximately 5.5 million square feet of office and retail branch space. Our portfolio of leased space consisted of 3.6 million square feet of retail branch space which spanned eleven states and 1.9 million square feet of non-branch office space. As of December 31, 2016, we owned an additional 623,000 square feet of office and branch space. We operated 81 branches in Rhode Island, 43 in Connecticut, 246 in Massachusetts, 20 in Vermont, 72 in New Hampshire, 142 in New York, 11 in New Jersey, 357 in Pennsylvania, 23 in Delaware, 110 in Ohio and 97 in Michigan. Of these branches, 1,163 were leased and the rest were owned. These properties were used by both the Consumer Banking and Commercial Banking segments. Management believes the terms of the various leases were consistent with market standards and were derived through arm's-length bargaining. We also believe that our properties are in good operating condition and adequately serve our current business operations. We anticipate that suitable additional or alternative space, including those under lease options, will be available at commercially reasonable terms for future expansion.

In 2016, we announced plans to build, and began construction on, a new campus in Johnston, Rhode Island. The three-building complex will bring together approximately 3,000 colleagues from various locations to one, creating greater collaboration and efficiency. In 2017, construction will continue, with completion anticipated in 2018.

ITEM 3. LEGAL PROCEEDINGS

Information required by this item is presented in Note 17 "Commitments and Contingencies" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, and is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

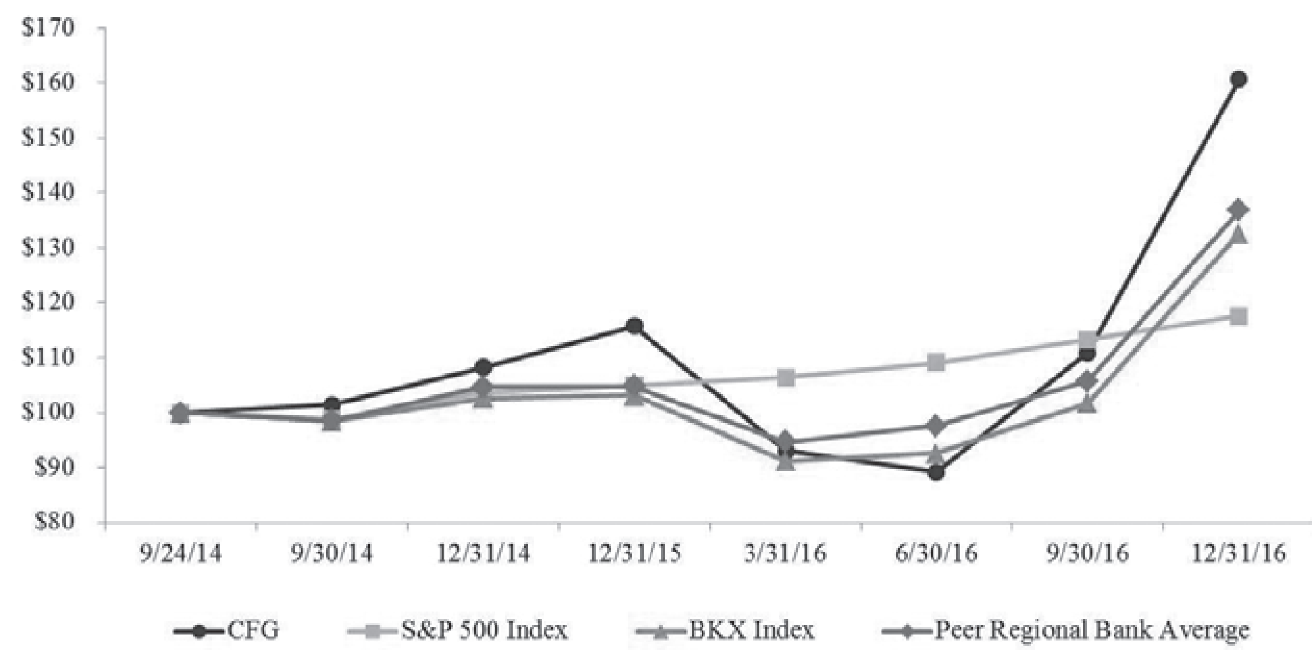
PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange under the symbol "CFG." As of February 8, 2017, our common stock was owned by one holder of record (Cede & Co.) and approximately 106,000 beneficial shareholders whose shares were held in "street name" through a broker or bank. Information regarding the high and low sale prices of our common stock and cash dividends declared on such shares, as required by this item, is presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Quarterly Results of Operations" in Part II, Item 7, included in this report. Information regarding restrictions on dividends, as required by this Item, is presented in Note 20 "Regulatory Matters" and Note 26 "Parent Company Only Financials" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report. Information relating to compensation plans under which our equity securities are authorized for issuance is presented in "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in Part III, Item 12, included in this report.

The following graph compares the cumulative total stockholder returns relative to the performance of the Standard & Poor's 500® index, a commonly referenced U.S. equity benchmark consisting of leading companies from diverse economic sectors; the KBW Nasdaq Bank Index ("BKX"), composed of 24 leading national money center and regional banks and thrifts; and a group of other banks that constitute our peer regional banks (BB&T, Comerica, Fifth Third, KeyCorp, M&T, PNC, Regions, SunTrust and U.S. Bancorp) for our performance since September 24, 2014, Citizens' initial day of trading. The graph assumes $100 invested at the closing price on September 24, 2014 in each of CFG common stock, the S&P 500 index, the BKX and the peer group average and assumes all dividends were reinvested on the date paid. The points on the graph represent the date our shares first began to trade on the NYSE and fiscal quarter-end amounts based on the last trading day in each fiscal quarter.

This graph shall not be deemed "soliciting material" or to be filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Citizens Financial Group, Inc. under the Securities Act of 1933, as amended, or the Exchange Act.



	9/24/2014	9/30/2014	12/31/2014	12/31/2015	3/31/2016	6/30/2016	9/30/2016	12/31/2016
CFG	$100	$101	$108	$116	$93	$89	$111	$161
S&P 500 Index	100	99	104	105	106	109	113	118
KBW BKX Index	100	98	103	103	91	93	102	133
Peer Regional Bank Average	$100	$99	$105	$105	$95	$98	$106	$137

Issuer Purchase of Equity Securities

Details of the repurchases of our common stock during the three months ended December 31, 2016 are included in the following table:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Dollar Amount of Shares That May Yet Be Purchased As Part of Publicly Announced Plans or Programs [1]
October 1, 2016 - October 31, 2016	6,270,492	$28.71	6,270,492	$260,000,000
November 1, 2016 - November 30, 2016	—	$—	—	$—
December 1, 2016 - December 31, 2016	—	$—	—	$—

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

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected Consolidated Statement of Operations data for the years ended December 31, 2016, 2015, 2014 and the selected Consolidated Balance Sheet data as of December 31, 2016 and 2015 are derived from our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report. We derived the selected Consolidated Statement of Operations data for the years ended December 31, 2013 and 2012 and the selected Consolidated Balance Sheet data as of December 31, 2014, 2013, and 2012 from our audited Consolidated Financial Statements, not included herein. Our historical results are not necessarily indicative of the results expected for any future period.

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and our audited Consolidated Financial Statements and the Notes thereto in Part II, Item 8 — Financial Statements and Supplementary Data, both included in this report.

	For the Year Ended December 31,				
(dollars in millions, except per-share amounts)	2016	2015	2014	2013 [1]	2012
OPERATING DATA:					
Net interest income	$3,758	$3,402	$3,301	$3,058	$3,227
Noninterest income	1,497	1,422	1,678	1,632	1,667
Total revenue	5,255	4,824	4,979	4,690	4,894
Provision for credit losses	369	302	319	479	413
Noninterest expense	3,352	3,259	3,392	7,679	3,457
Income (loss) before income tax expense (benefit)	1,534	1,263	1,268	(3,468)	1,024
Income tax expense (benefit)	489	423	403	(42)	381
Net income (loss)	1,045	840	865	(3,426)	643
Net income (loss) available to common stockholders	1,031	833	865	(3,426)	643
Net income (loss) per average common share - basic [2]	1.97	1.55	1.55	(6.12)	1.15
Net income (loss) per average common share - diluted [2]	1.97	1.55	1.55	(6.12)	1.15
Dividends declared and paid per common share	0.46	0.40	1.43	2.12	0.27
OTHER OPERATING DATA:					
Return on average common equity [3]	5.23%	4.30%	4.46%	(15.69%)	2.69%
Return on average tangible common equity [4]	7.74	6.45	6.71	(25.91)	4.86
Return on average total assets [5]	0.73	0.62	0.68	(2.83)	0.50
Return on average total tangible assets [6]	0.76	0.65	0.71	(3.05)	0.55
Efficiency ratio [7]	63.80	67.56	68.12	163.73	70.64
Operating leverage [8]	6.08	0.81	61.99	(126.30)	(5.27)
Net interest margin [9]	2.86	2.75	2.83	2.85	2.89

CITIZENS FINANCIAL GROUP, INC.

SELECTED CONSOLIDATED FINANCIAL DATA

	As of December 31,				
(dollars in millions)	2016	2015	2014	2013	2012
BALANCE SHEET DATA:					
Total assets	$149,520	$138,208	$132,857	$122,154	$127,053
Loans and leases [(10)]	107,669	99,042	93,410	85,859	87,248
Allowance for loan and lease losses	1,236	1,216	1,195	1,221	1,255
Total securities	25,610	24,075	24,704	21,274	19,439
Goodwill	6,876	6,876	6,876	6,876	11,311
Total liabilities	129,773	118,562	113,589	102,958	102,924
Total deposits [(11)]	109,804	102,539	95,707	86,903	95,148
Federal funds purchased and securities sold under agreements to repurchase	1,148	802	4,276	4,791	3,601
Other short-term borrowed funds	3,211	2,630	6,253	2,251	501
Long-term borrowed funds	12,790	9,886	4,642	1,405	694
Total stockholders' equity	19,747	19,646	19,268	19,196	24,129
OTHER BALANCE SHEET DATA:					
Asset Quality Ratios					
Allowance for loan and lease losses as a % of total loans and leases	1.15%	1.23%	1.28%	1.42%	1.44%
Allowance for loan and lease losses as a % of nonperforming loans and leases	118	115	109	86	67
Nonperforming loans and leases as a % of total loans and leases	0.97	1.07	1.18	1.65	2.14
Capital Ratios:[(12)]					
CET1 capital ratio [(13)]	11.2	11.7	12.4	13.5	13.9
Tier 1 capital ratio [(14)]	11.4	12.0	12.4	13.5	14.2
Total capital ratio [(15)]	14.0	15.3	15.8	16.1	15.8
Tier 1 leverage ratio [(16)]	9.9	10.5	10.6	11.6	12.1

(1) Results in 2013 reflect a $4.4 billion pre-tax or $4.1 billion after-tax goodwill impairment, which was recorded within noninterest expense.

(2) Earnings per share information reflects a 165,582-for-1 forward stock split effective on August 22, 2014.

(3) "Return on average common equity" is defined as net income (loss) available to common stockholders divided by average common equity. Average common equity represents average total stockholders' equity less average preferred stock.

(4) "Return on average tangible common equity" is defined as net income (loss) available to common stockholders divided by average common equity excluding average goodwill (net of related deferred tax liability) and average other intangibles. Average common equity represents average total stockholders' equity less average preferred stock.

(5) "Return on average total assets" is defined as net income (loss) divided by average total assets.

(6) "Return on average total tangible assets" is defined as net income (loss) divided by average total assets excluding average goodwill (net of related deferred tax liability) and average other intangibles.

(7) "Efficiency ratio is defined as the ratio of our total noninterest expense to the sum of net interest income and total noninterest income.

(8) "Operating leverage represents the year-over-year percent change in total revenue, less the year-over-year percent change in noninterest expense. For the purpose of the 2012 calculation, 2011 total revenue was $5.0 billion and noninterest expense was $3.4 billion.

(9) "Net interest margin" is defined as net interest income divided by average total interest-earning assets.

(10) Excludes loans held for sale of $625 million, $365 million, $281 million, $1.3 billion and $646 million as of December 31, 2016, 2015, 2014, 2013 and 2012, respectively.

(11) Excludes deposits held for sale of $5.3 billion as of December 31, 2013.

(12) 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 December 31, 2016 and December 31, 2015 are prepared using the Basel III Standardized transitional approach.

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

(14) "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.

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

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are one of the nation's oldest and largest financial institutions, with $149.5 billion of total assets as of December 31, 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 average loans and leases totaled $55.1 billion in 2016 compared with $51.5 billion in 2015 and represented approximately 55% of average total operating segment loan and lease balances (including loans held for sale) compared with 55% of average total operating segment loan and lease balances (including loans held for sale) in 2015. 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.

Commercial Banking average loans and leases totaled $45.9 billion in 2016 compared with $41.6 billion in 2015, and represented approximately 45% of average total operating segment loan and lease balances (including loans held for sale) compared with 45% of average total operating segment loan and lease balances (including loans held for sale) in 2015. 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.

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 and are included in other. Non-core assets of $2.8 billion as of December 31, 2016 increased $422 million, or 18%, from December 31, 2015. These results were driven by a $909 million increase in total commercial non-core loans related to the transfer of a $1.2 billion lease and loan portfolio tied to legacy RBS aircraft leasing borrowers that we placed in runoff following a review of Asset Finance in third quarter 2016. The increase in commercial non-core loans was partially offset by a $616 million decrease in total retail non-core loans.

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.

For 2016, we recorded income before income tax expense and net income of $1.5 billion and $1.0 billion, respectively. 2016 results included a $31 million pre-tax, or $19 million after-tax, benefit from notable items, presented below.

	Year Ended December 31, 2016		
(dollars in millions, except diluted EPS impact)	Pre tax	After tax	Diluted 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 reflects $11 million in salaries and benefits and $6 million in outside services associated with TOP III efficiency initiatives. See "Business Strategy" in Part I, Item 1 — Business, included in this report for further information about our TOP III efficiency initiatives.

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.

The U.S. economy continued to expand at a moderate pace, with annual real GDP rising by 1.6% in 2016, compared with an increase of 2.6% in 2015. The housing sector remained steady as compared to previous quarters with three month average existing home sales of 5.6 million units.

The labor market continued to improve, with moderate job gains and lower levels of unemployment. The U.S. unemployment rate declined to 4.7% at December 31, 2016 from 5.0% at December 31, 2015. Average monthly nonfarm employment increased by 180,000 in 2016, compared to a revised increase of 229,000 in 2015.

The FRB maintained very accommodative monetary policy conditions during 2016, notwithstanding the 0.25% rate increase in December, and continues to target a 0.50% to 0.75% federal funds rate range at the short end of the yield curve. Interest rates have risen but still remain relatively low on an historical basis. See "—Interest rates" below for further discussion of the impact of interest rates on our results. Observable inflation levels have risen closer to 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 effective yield on such assets and the effective 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, 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 the fourth quarter of 2016, short-term and long-term interest rates increased, including benchmark rates such as the federal funds rate and one-and three-month LIBOR, due to the FRB's decision to raise rates in December and to changes in growth and inflation expectations. Longer-term yields rose more than short-term yields (a steeper yield curve), which would have a beneficial impact on our margin and net interest income given our asset sensitive position.

In 2016 and 2015, 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 2016. However, the FRB will likely continue to target an accommodative monetary policy for some time to come with interest rates expected to gradually increase to more normal levels.

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 reflects heightened regulatory expectations around many regulations including consumer compliance, the Bank Secrecy Act, anti-money laundering compliance, and increased internal audit activities.

Dodd-Frank regulation

As described under "Regulation and Supervision" in Part I, Item 1 — Business included in this report, 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 may 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. One part of the Dodd-Frank Act that specifically impacts our business is the FRBG's capital planning and stress-testing framework known as CCAR and DFAST, which continues to evolve. 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 FRB 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. We publish estimated impacts of stress, as required by applicable regulation processes, which may be accessed on our regulatory filings and disclosures page on http://investor.citizensbank.com.

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 on June 23, 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 Parent Company/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 to $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 for non-complex institutions, 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.

Credit trends

Overall credit quality continued to improve reflecting growth in lower risk retail loans and modest increases in commercial categories. Nonperforming loans and leases of $1.0 billion as of December 31, 2016 decreased $15 million from December 31, 2015, reflecting improvements in retail real estate secured categories offset by an increase in commercial nonperforming assets, largely driven by commodities-related businesses. Net charge-offs of $335 million increased $51 million, or 18%, from $284 million in 2015, as a $59 million increase in commercial, largely tied to commodities-related businesses and a reduction in commercial real estate recoveries more than offset an $8 million decrease in retail. Net charge-offs of 0.32% of average total loans and leases remained relatively stable with 0.30% in 2015.

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 December 31, 2016, approximately 18% of our $14.3 billion HELOC portfolio, or $2.6 billion in drawn balances were subject to a payment reset or balloon payment between January 1, 2017 and December 31, 2018.

As of December 31, 2016, for the $1.7 billion of our HELOC portfolio that reached the end of the interest-only draw period and entered repayment of principal and interest in 2014 and 2015, 94% of the balances have been refinanced, paid off or were current on payments, 3% are past due and 3% have been charged off. As of December 31, 2016, for the $738 million of our HELOC portfolio that reached the end of the interest-only draw period and entered repayment of principal and interest in 2016, 95% of the balances have been refinanced, paid off or were current on payments, 4% are past due and 1% have been charged off.

A total of $1.1 billion of HELOC balances are scheduled to reach the end of the interest-only draw period and enter repayment of principal and interest in 2017. For the $5.3 billion HELOC portfolio scheduled to reach the end of the interest-only draw period and enter repayment of principal and interest between December 31, 2016 and December 31, 2021, 44% was secured by a first lien, with a the weighted average FICO score of the borrowers of 764 and a loan-to-value ratio of 61.3%. Those results compare to the total HELOC portfolio of $14.3 billion that was 50% secured by a first lien, with a weighted average FICO score of the borrowers of 767 and a loan-to-value ratio of 61.3%. Factors that affect our future expectations for continued relatively low charge-off risk in the face of rising interest rates for the portion of our HELOC portfolio subject to reset in future periods include a relatively high level of first lien collateral positions, improved loan-to-value ratios resulting from continued home price appreciation, relatively stable portfolio credit score profiles and continued 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, net income and net income available to common stockholders. 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 effective yield on such assets and the effective 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" and Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

Noninterest expense

Noninterest expense includes salaries and employee benefits, outside services, occupancy expense, equipment expense, amortization of software 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 effective 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 for direct financing and leveraged leases recognized currently against other income. Leveraged leases are reported net of non-recourse debt. Unearned income is recognized to yield a level rate of return on the net investment in the leases.

Loans 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 other 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 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" and Note 5 "Allowance for Credit Losses, Nonperforming Assets and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, 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 December 31, 2016, our total short-term borrowed funds included federal funds purchased, securities sold under agreement to repurchase, the current portion of FHLB advances, long-term debt that matures within one year, and other short-term borrowed funds. As of December 31, 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 12 "Borrowed Funds" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, 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 carrying amount of 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. Offsetting swap and forward agreements are generally transacted to minimize our market risk associated with the customer derivative contracts. The carrying amount of 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 16 "Derivatives" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

Key performance metrics and non-GAAP financial measures

We consider various measures 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 net income available to common stockholders divided by average common equity;
- Return on average tangible common equity, which we define as 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 net income divided by average total assets;
- Return on average total tangible assets, which we define as 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 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 our 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 revenues and 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 presents computations of key performance metrics and reconciliations of non-GAAP financial measures used throughout "—Results of Operations" :

		Year Ended December 31,		
(dollars in millions, except per-share data)	Ref.	2016	2015	2014
Noninterest income, adjusted:				
Noninterest income (GAAP)		$1,497	$1,422	$1,678
Less: Special Items - Net gain on the Chicago Divestiture		—	—	288
Less: Notable items				
Gain on mortgage/home equity TDR Transaction		72	—	—
Asset Finance repositioning		(5)	—	—
Noninterest income, adjusted (non-GAAP)		$1,430	$1,422	$1,390
Total revenue, adjusted:				
Total revenue (GAAP)	A	$5,255	$4,824	$4,979
Less: Special Items - Net gain on the Chicago Divestiture		—	—	288
Less: Notable items		—		
Gain on mortgage/home equity TDR Transaction		72	—	—
Asset Finance repositioning		(5)	—	—
Total revenue, adjusted (non-GAAP)	B	$5,188	$4,824	$4,691
Noninterest expense, adjusted:				
Noninterest expense (GAAP)	C	$3,352	$3,259	$3,392
Less: Restructuring charges		—	26	114
Less: Special items				
Regulatory charges		—	2	35
Separation/IPO related		—	22	20
Less: Notable items				
Home equity operational items		8	—	—
Asset Finance repositioning		11	—	—
TOP III efficiency initiatives		17	—	—
Noninterest expense, adjusted (non-GAAP)	D	$3,316	$3,209	$3,223
Pre-provision profit:				
Total revenue (GAAP)	A	$5,255	$4,824	$4,979
Noninterest expense (GAAP)	C	3,352	3,259	3,392
Pre-provision profit, (GAAP)		$1,903	$1,565	$1,587
Pre-provision profit, adjusted:				
Total revenue, adjusted (non-GAAP)	B	$5,188	$4,824	$4,691
Noninterest expense, adjusted (non-GAAP)	D	3,316	3,209	3,223
Pre-provision profit, adjusted (non-GAAP)		$1,872	$1,615	$1,468
Income before income tax expense, adjusted:				
Income before income tax expense (GAAP)		$1,534	$1,263	$1,268
Less: Restructuring charges		—	(26)	(114)
Less: Special items				
Net gain on the Chicago Divestiture		—	—	288
Regulatory charges		—	(2)	(35)
Separation/IPO related		—	(22)	(20)
Less: Notable items				
Gain on mortgage/home equity TDR Transaction		72	—	—
Home equity operational items		(8)	—	—
Asset Finance repositioning		(16)	—	—
TOP III efficiency initiatives		(17)	—	—
Income before income tax expense, adjusted (non-GAAP)		$1,503	$1,313	$1,149

		Year Ended December 31,		
(dollars in millions, except per-share data)	Ref.	2016	2015	2014
Income tax expense, adjusted:				
Income tax expense (GAAP)		$489	$423	$403
Less: Restructuring charges		—	(10)	(42)
Less: Special items				
Net gain on the Chicago Divestiture		—	—	108
Regulatory charges		—	(1)	(13)
Separation/IPO related		—	(8)	(9)
Less: Notable items				
Gain on mortgage/home equity TDR Transaction		27	—	—
Home equity operational items		(3)	—	—
Asset Finance repositioning		(6)	—	—
TOP III efficiency initiatives		(6)	—	—
Income tax expense, adjusted (non-GAAP)		$477	$442	$359
Net income, adjusted:				
Net income (GAAP)	E	$1,045	$840	$865
Add: Restructuring charges, net of tax expense		—	16	72
Add: Special items, net of tax expense				
Net gain on the Chicago Divestiture		—	—	(180)
Regulatory charges		—	1	22
Separation/IPO related		—	14	11
Add: Notable items, net of tax expense				
Gain on mortgage/home equity TDR Transaction		(45)	—	—
Home equity operational items		5	—	—
Asset Finance repositioning		10	—	—
TOP III efficiency initiatives		11	—	—
Net income, adjusted (non-GAAP)	F	$1,026	$871	$790
Net income available to common stockholders, adjusted:				
Net income available to common stockholders (GAAP)	G	$1,031	$833	$865
Add: Restructuring charges, net of tax expense		—	16	72
Add: Special items, net of tax expense				
Net gain on the Chicago Divestiture		—	—	(180)
Regulatory charges		—	1	22
Separation/IPO related		—	14	11
Add: Notable items, net of tax expense				
Gain on mortgage/home equity TDR Transaction		(45)	—	—
Home equity operational items		5	—	—
Asset Finance repositioning		10	—	—
TOP III efficiency initiatives		11	—	—
Net income available to common stockholders, adjusted (non-GAAP)	H	$1,012	$864	$790
Net income per average common share-basic and diluted, adjusted:				
Average common shares outstanding - basic (GAAP)	I	522,093,545	535,599,731	556,674,146
Average common shares outstanding - diluted (GAAP)	J	523,930,718	538,220,898	557,724,936
Net income per average common share - basic (GAAP)	G/I	$1.97	$1.55	$1.55
Net income per average common share - diluted (GAAP)	G/J	1.97	1.55	1.55
Net income per average common share-basic, adjusted (non-GAAP)	H/I	1.94	1.61	1.42
Net income per average common share-diluted, adjusted (non-GAAP)	H/J	1.93	1.61	1.42

(dollars in millions, except per-share data)	Ref.	Year Ended December 31, 2016	2015	2014
Impact of restructuring charges, special items and/or notable items on net income per average common share - basic:				
Restructuring charges		$—	($0.03)	($0.13)
Special items:				
Net gain on the Chicago Divestiture		—	—	0.32
Regulatory charges		—	—	(0.04)
Separation/IPO related		—	(0.03)	(0.02)
Notable items:				
Gain on mortgage/home equity TDR Transaction		0.08	—	—
Home equity operational items		(0.01)	—	—
Asset Finance repositioning		(0.02)	—	—
TOP III efficiency initiatives		(0.02)	—	—
Impact of goodwill impairment, restructuring charges, special items and/or notable items on net income per average common share - basic		$0.03	($0.06)	$0.13
Impact of restructuring charges, special items and/or notable items on net income per average common share - diluted:				
Restructuring charges		$—	($0.03)	($0.13)
Special items:				
Net gain on the Chicago Divestiture		—	—	0.32
Regulatory charges		—	—	(0.04)
Separation/IPO related		—	(0.03)	(0.02)
Notable items:				
Gain on mortgage/home equity TDR Transaction		0.09	—	—
Home equity operational items		(0.01)	—	—
Asset Finance repositioning		(0.02)	—	—
TOP III efficiency initiatives		(0.02)	—	—
Impact of goodwill impairment, restructuring charges, special items and/or notable items on net income per average common share - diluted		$0.04	($0.06)	$0.13
Return on average common equity and return on average common equity, adjusted:				
Average common equity (GAAP)	K	$19,698	$19,354	$19,399
Return on average common equity	G/K	5.23%	4.30 %	4.46 %
Return on average common equity, adjusted (non-GAAP)	H/K	5.14	4.46	4.07
Return on average tangible common equity and return on average tangible common equity, adjusted:				
Average common equity (GAAP)	K	$19,698	$19,354	$19,399
Less: Average goodwill (GAAP)		6,876	6,876	6,876
Less: Average other intangibles (GAAP)		2	4	7
Add: Average deferred tax liabilities related to goodwill (GAAP)		502	445	377
Average tangible common equity	L	$13,322	$12,919	$12,893
Return on average tangible common equity	G/L	7.74%	6.45 %	6.71 %
Return on average tangible common equity, adjusted (non-GAAP)	H/L	7.60	6.69	6.13
Return on average total assets and return on average total assets, adjusted:				
Average total assets (GAAP)	M	$143,183	$135,070	$127,624
Return on average total assets	E/M	0.73%	0.62 %	0.68 %
Return on average total assets, adjusted (non-GAAP)	F/M	0.72	0.64	0.62

		Year Ended December 31,		
(dollars in millions, except per-share data)	Ref.	2016	2015	2014
Return on average total tangible assets and return on average total tangible assets, adjusted:				
Average total assets (GAAP)	M	$143,183	$135,070	$127,624
Less: Average goodwill (GAAP)		6,876	6,876	6,876
Less: Average other intangibles (GAAP)		2	4	7
Add: Average deferred tax liabilities related to goodwill (GAAP)		502	445	377
Average tangible assets	N	$136,807	$128,635	$121,118
Return on average total tangible assets	E/N	0.76%	0.65 %	0.71 %
Return on average total tangible assets, adjusted (non-GAAP)	F/N	0.75	0.68	0.65
Efficiency ratio and efficiency ratio, adjusted:				
Efficiency ratio	C/A	63.80%	67.56 %	68.12 %
Efficiency ratio, adjusted (non-GAAP)	D/B	63.92	66.52	68.70
Operating Leverage:				
Increase (decrease) in total revenue	A	8.93%	(3.11%)	6.16 %
Increase (decrease) noninterest expense	C	2.85	(3.92)	(55.83)
Operating Leverage		6.08%	0.81 %	61.99 %
Operating Leverage, adjusted:				
Increase (decrease) in total revenue, adjusted (non-GAAP)	B	7.55%	2.84 %	0.02 %
Increase (decrease) noninterest expense, adjusted (non-GAAP)	D	3.33	(0.43)	0.16
Operating Leverage, adjusted (non-GAAP)		4.22%	3.27 %	(0.14%)

		As of and for the Year Ended December 31,											
		2016				2015				2014			
(dollars in millions)	Ref.	Consumer Banking (1)	Commercial Banking (1)	Other	Consolidated	Consumer Banking (1)	Commercial Banking (1)	Other	Consolidated	Consumer Banking (1)	Commercial Banking (1)	Other	Consolidated
Net income available to common stockholders:													
Net income (GAAP)	O	$345	$631	$69	$1,045	$262	$579	($1)	$840	$182	$561	$122	$865
Less: Preferred stock dividends		—	—	14	14	—	—	7	7	—	—	—	—
Net income available to common stockholders (GAAP)	P	$345	$631	$55	$1,031	$262	$579	($8)	$833	$182	$561	$122	$865
Efficiency ratio:													
Total revenue (GAAP)	Q	$3,326	$1,754	$175	$5,255	$3,108	$1,577	$139	$4,824	$3,050	$1,502	$427	$4,979
Noninterest expense (GAAP)	R	2,547	741	64	3,352	2,456	709	94	3,259	2,513	652	227	3,392
Efficiency ratio	R/Q	76.57%	42.26%	NM	63.80%	79.02%	44.94%	NM	67.56%	82.39%	43.37%	NM	68.12%
Return on average total tangible assets:													
Average total assets (GAAP)		$56,388	$47,159	$39,636	$143,183	$52,848	$42,800	$39,422	$135,070	$48,939	$38,483	$40,202	$127,624
Less: Average goodwill (GAAP)		—	—	6,876	6,876	—	—	6,876	6,876	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	2	2	—	—	4	4	—	—	7	7
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	502	502	—	—	445	445	—	—	377	377
Average total tangible assets	S	$56,388	$47,159	$33,260	$136,807	$52,848	$42,800	$32,987	$128,635	$48,939	$38,483	$33,696	$121,118
Return on average total tangible assets	O/S	0.61%	1.34%	NM	0.76%	0.50%	1.35%	NM	0.65%	0.37%	1.46%	NM	0.71%
Return on average tangible common equity:													
Average common equity (GAAP)(1)		$5,166	$5,071	$9,461	$19,698	$4,739	$4,666	$9,949	$19,354	$4,665	$4,174	$10,560	$19,399
Less: Average goodwill (GAAP)		—	—	6,876	6,876	—	—	6,876	6,876	—	—	6,876	6,876
Less: Average other intangibles (GAAP)		—	—	2	2	—	—	4	4	—	—	7	7
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	502	502	—	—	445	445	—	—	377	377
Average tangible common equity (1)	T	$5,166	$5,071	$3,085	$13,322	$4,739	$4,666	$3,514	$12,919	$4,665	$4,174	$4,054	$12,893
Return on average tangible common equity (1)	P/T	6.68%	12.44%	NM	7.74%	5.53%	12.41%	NM	6.45%	3.90%	13.43%	NM	6.71%

(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 — Year Ended December 31, 2016 Compared with Year Ended December 31, 2015

Highlights

For the year ended December 31, 2016:

- Net income of $1.0 billion increased $205 million, or 24%, from $840 million in 2015;
- Net income included the benefit of $19 million in after-tax notable items compared to a reduction of $31 million after-tax restructuring charges and special items in 2015. Excluding notable items, adjusted net income* increased $155 million, or 18%, to $1.0 billion from $871 million in 2015;
- Net income available to common stockholders of $1.0 billion increased $198 million, or 24%, from $833 million in 2015. Net income available to common stockholders was impacted by preferred stock dividends of $14 million, compared to $7 million in 2015. Excluding notable items, adjusted net income available to common stockholders* increased $148 million, or 17%, to $1.0 billion from $864 million in 2015;
- Net interest income of $3.8 billion increased $356 million, or 10%, from $3.4 billion in 2015 driven by 8% average loan growth, the benefit of balance sheet optimization strategies and higher rates;
- Net interest margin of 2.86% increased 11 basis points from 2.75% in 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 higher deposit and borrowing costs;
- Noninterest income of $1.5 billion increased $75 million, or 5%, from 2015, largely reflecting the $72 million benefit of the TDR transaction gain. Excluding this impact, adjusted noninterest income increased $8 million as strength in capital market fees, service charges and fees and mortgage banking fees was partially offset by lower card fees, securities gains, trust and investment service fees and other income;
- Noninterest expense of $3.4 billion increased $93 million, or 3%, compared to $3.3 billion in 2015 that included $50 million in restructuring, special items and notable items, $14 million more than 2016. Excluding the impact of restructuring, special items and notable items, adjusted noninterest expense* increased $107 million driven by higher salaries and employee benefits including the impact of continued investment in strategic growth initiatives partially offset by the benefit of our efficiency initiatives, as well as increased software amortization expense, outside services expense and equipment expense, partially offset by lower other operating expense.
- Provision for credit losses of $369 million increased $67 million, or 22%, from $302 million in 2015, largely reflecting the impact of higher commercial loan charge-offs and the impact of loan growth;
- Return on average common equity of 5.23% compared to 4.30% in 2015;
- Return on average tangible common equity of 7.74% compared with 6.45% in 2015, and adjusted return on average tangible common equity* of 7.60%, compared to 6.69% in 2015;
- Average loans and leases of $103.4 billion increased $7.2 billion, or 8%, from $96.2 billion in 2015 reflecting a $4.4 billion increase in commercial loans and a $2.8 billion increase in retail loans;
- Average deposits of $105.4 billion increased $6.3 billion, or 6%, driven by growth in every category including a $5.3 billion increase in interest-bearing and a $1.0 billion increase in demand deposits;
- Net charge-offs of $335 million increased $51 million, or 18%, from $284 million in 2015 largely as an increase in commercial charge-offs tied to commodity-related credits and the impact of lower commercial real estate recoveries was partially offset by a reduction in retail. The ALLL of $1.2 billion increased $20 million compared to 2015. ALLL to total loans and leases ratio of 1.15% as of December 31, 2016, compared with 1.23% as of December 31, 2015. ALLL to nonperforming loans and leases ratio of 118% as of December 31, 2016 compared with 115% as of December 31, 2015; and
- Net income per average common share, basic, of $1.97, and adjusted net income per common share, basic*, of $1.94, compared to $1.55 per average common share, basic, and adjusted net income per common share, basic*, of $1.61, respectively, in 2015.

Net Income

Net income totaled $1.0 billion, reflecting an increase of $205 million, or 24%, from $840 million in 2015. The 2016 results included a $19 million after-tax benefit from notable items, compared with $31 million of after tax restructuring charges and special items in 2015. Excluding the impact of restructuring charges, special items and notable items, adjusted net income* increased $155 million, or 18%, from 2015.

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

	Year Ended December 31,			
(dollars in millions)	**2016**	**2015**	**Change**	**Percent**
Operating Data:				
Net interest income	$3,758	$3,402	$356	10%
Noninterest income	1,497	1,422	75	5
Total revenue	5,255	4,824	431	9
Provision for credit losses	369	302	67	22
Noninterest expense	3,352	3,259	93	3
Income before income tax expense	1,534	1,263	271	21
Income tax expense	489	423	66	16
Net income	$1,045	$840	$205	24%
Net income available to common stockholders	$1,031	$833	$198	24%
Return on average tangible common equity	7.74%	6.45%	129 bps	

Return on Equity and Assets

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

	December 31,	
	2016	**2015**
Return on average total assets	0.73%	0.62%
Return on average common equity	5.23	4.30
Dividend payout ratio	23.30	25.73
Average equity to average assets ratio	13.93	14.46

Net Interest Income

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

	Year Ended December 31,							
	2016			2015			Change	
(dollars in millions)	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Yields/ Rates
Assets								
Interest-bearing cash and due from banks and deposits in banks	$1,931	$8	0.41%	$1,746	$5	0.29%	$185	12 bps
Taxable investment securities	24,643	584	2.37	24,649	621	2.52	(6)	(15)
Non-taxable investment securities	8	—	2.60	9	—	2.60	(1)	0
Total investment securities	24,651	584	2.37	24,658	621	2.52	(7)	(15)
Commercial	35,652	1,136	3.13	32,673	951	2.87	2,979	26
Commercial real estate	9,741	278	2.81	8,231	211	2.53	1,510	28
Leases	3,841	93	2.41	3,902	97	2.50	(61)	(9)
Total commercial	49,234	1,507	3.01	44,806	1,259	2.78	4,428	23
Residential mortgages	14,005	504	3.60	12,338	465	3.77	1,667	(17)
Home equity loans	2,180	123	5.64	3,025	163	5.38	(845)	26
Home equity lines of credit	14,402	457	3.18	14,958	441	2.95	(556)	23
Home equity loans serviced by others	867	62	7.11	1,117	77	6.94	(250)	17
Home equity lines of credit serviced by others	281	7	2.41	453	11	2.44	(172)	(3)
Automobile	13,953	411	2.94	13,516	372	2.75	437	19
Student	5,558	282	5.08	3,313	167	5.03	2,245	5
Credit cards	1,620	181	11.22	1,621	178	10.97	(1)	25
Other retail	1,288	119	9.23	1,003	78	7.75	285	148
Total retail	54,154	2,146	3.96	51,344	1,952	3.80	2,810	16
Total loans and leases [1]	103,388	3,653	3.51	96,150	3,211	3.32	7,238	19
Loans held for sale, at fair value	425	15	3.40	301	10	3.47	124	(7)
Other loans held for sale	141	6	4.55	95	7	7.22	46	(267)
Interest-earning assets	130,536	4,266	3.25	122,950	3,854	3.12	7,586	13
Allowance for loan and lease losses	(1,227)			(1,196)			(31)	
Goodwill	6,876			6,876			—	
Other noninterest-earning assets	6,998			6,440			558	
Total noninterest-earning assets	12,647			12,120			527	
Total assets	$143,183			$135,070			$8,113	
Liabilities and Stockholders' Equity								
Checking with interest	$19,320	$34	0.18%	$16,666	$19	0.11%	$2,654	7 bps
Money market accounts	37,106	133	0.36	35,401	115	0.32	1,705	4
Regular savings	8,691	4	0.04	8,057	2	0.03	$634	1
Term deposits	12,696	99	0.78	12,424	101	0.82	$272	(4)
Total interest-bearing deposits	77,813	270	0.35	72,548	237	0.33	5,265	2
Federal funds purchased and securities sold under agreements to repurchase [2]	947	2	0.22	3,364	16	0.46	(2,417)	(24)
Other short-term borrowed funds [3]	3,207	40	1.22	5,865	67	1.13	(2,658)	9
Long-term borrowed funds	10,472	196	1.86	4,479	132	2.95	5,993	(109)
Total borrowed funds	14,626	238	1.62	13,708	215	1.56	918	6
Total interest-bearing liabilities	92,439	508	0.55	86,256	452	0.52	6,183	3
Demand deposits	27,634			26,606			1,028	
Other liabilities	3,165			2,671			494	
Total liabilities	123,238			115,533			7,705	
Stockholders' equity	19,945			19,537			408	
Total liabilities and stockholders' equity	$143,183			$135,070			$8,113	
Interest rate spread			2.70%			2.60%		10
Net interest income		$3,758			$3,402			
Net interest margin			2.86%			2.75%		11bps
Memo: Total deposits (interest-bearing and demand)	$105,447	$270	0.26%	$99,154	$237	0.24%	$6,293	2 bps

[1] Interest income and rates on loans include loan fees. Additionally, $1.1 billion of average nonaccrual loans were included in the average loan balances used to determine the average yield on loans for December 2016 and 2015.
[2] 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 ran off in 2016. See "—Analysis of Financial Condition—Derivatives" for further information.
[3] The rate on Other short-term borrowed funds is elevated due to the impact from pay-fixed interest rate swaps. See "—Analysis of Financial Condition — Derivatives" for further information.

Net interest income of $3.8 billion in 2016 increased $356 million, or 10%, compared to $3.4 billion in 2015, reflecting 8% average loan growth and the benefit of balance sheet optimization strategies and higher rates.

Average interest-earning assets of $130.5 billion increased $7.6 billion, or 6%, from 2015, driven by a $4.4 billion increase in average commercial loans, a $2.8 billion increase in average retail loans, and a $185 million increase in average 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 loan balances.

Average deposits of $105.4 billion increased $6.3 billion from 2015 with particular strength in checking with interest, money market accounts, demand deposits and regular savings. Total interest-bearing deposit costs of $270 million increased $33 million, or 14%, from $237 million in 2015 and reflected a two basis point increase in interest-bearing deposit costs to 0.35%. Checking with interest costs increased to 0.18% in 2016 compared with 0.11% in 2015, term deposit costs decreased to 0.78% in 2016 from 0.82% in 2015, money market account cost increased to 0.36% from 0.32% in 2015, and regular savings account costs increased to 0.04% from 0.03% in 2015.

Total borrowed funds of $14.6 billion increased $918 million from 2015. Total borrowed funds costs of $238 million increased $23 million from 2015. Within the federal funds purchased and securities sold under agreements to repurchase and other short-term borrowed funds, pay-fixed swap expense declined to $20 million for 2016 compared to $58 million in 2015. Including the impact of hedging costs, total borrowed funds rates increased to 1.62% from 1.56% in 2015. The increase in long-term borrowing expense of $64 million was driven by an increase in senior debt and FHLB borrowings as we continued to realign our liability and capital structure to better align with peers.

Net interest margin of 2.86% increased 11 basis points compared to 2.75% in 2015 driven by the benefit of pricing and portfolio optimization initiatives on loan portfolio mix and yield partially offset by a modest increase in deposit and funding costs and a reduction in investment portfolio yields. Results also reflected the benefit of lower pay-fixed swap expense.

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

	Year Ended December 31,		
	2016 Versus 2015		
(in millions)	Average Volume	Average Rate	Net Change
Interest Income			
Interest-bearing cash and due from banks and deposits in banks	$1	$2	$3
Taxable investment securities	—	(37)	(37)
Non-taxable investment securities	—	—	—
Total investment securities	—	(37)	(37)
Commercial	88	97	185
Commercial real estate	39	28	67
Leases	(2)	(2)	(4)
Total commercial	125	123	248
Residential mortgages	63	(24)	39
Home equity loans	(46)	6	(40)
Home equity lines of credit	(16)	32	16
Home equity loans serviced by others	(16)	1	(15)
Home equity lines of credit serviced by others	(5)	1	(4)
Automobile	12	27	39
Student	113	2	115
Credit cards	—	3	3
Other retail	22	19	41
Total retail	127	67	194
Total loans and leases	252	190	442
Loans held for sale, at fair value	4	1	5
Other loans held for sale	3	(4)	(1)
Total interest income	$260	$152	$412
Interest Expense			
Checking with interest	$3	$12	$15
Money market accounts	5	13	18
Regular savings	1	1	2
Term deposits	2	(4)	(2)
Total interest-bearing deposits	11	22	33
Federal funds purchased and securities sold under agreements to repurchase	(11)	(3)	(14)
Other short-term borrowed funds	(30)	3	(27)
Long-term borrowed funds	177	(113)	64
Total borrowed funds	136	(113)	23
Total interest expense	147	(91)	56
Net interest income	$113	$243	$356

Noninterest Income

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

	Year Ended December 31,			
(dollars in millions)	2016	2015	Change	Percent
Service charges and fees	$599	$575	$24	4%
Card fees	203	232	(29)	(13)
Trust and investment services fees	146	157	(11)	(7)
Mortgage banking fees	112	101	11	11
Capital markets fees	125	88	37	42
Foreign exchange and letter of credit fees	90	90	—	—
Bank-owned life insurance income	54	56	(2)	(4)
Securities gains, net	16	29	(13)	(45)
Other income (1)	152	94	58	62
Noninterest income	$1,497	$1,422	$75	5%

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

Noninterest income of $1.5 billion in 2016, increased $75 million, or 5%, compared to 2015, largely driven by a $67 million pre-tax benefit from notable items in other income. Excluding the impact of these items, adjusted noninterest income* increased $8 million, or 1%, as strength in capital markets fees, service charges and fees and mortgage fees were partially offset by the impact of a reclassification of card reward costs, lower securities gains and trust and investment services fees. Capital market fees increased $37 million reflecting underlying business momentum and the benefit of enhanced product capabilities. Service charges increased $24 million, driven by both improved pricing and volume. Mortgage banking fees increased $11 million from 2015 levels that included higher MSR valuation gains driven by increased secondary origination volume and wider margins. Card fees decreased $29 million from 2015 results, which were $28 million higher given the reclassification of card reward costs.

Provision for Credit Losses

Provision for credit losses of $369 million increased $67 million, or 22%, from $302 million in 2015, largely reflecting the impact of higher commercial net charge-offs, primarily in commodities-related portfolios and commercial real estate driven by the impact of a reduction in recoveries as well as the impact of loan growth. 2016 results reflected a $34 million reserve build compared to an $18 million reserve build in 2015, as the impact of loan growth was partially offset by loan mix shifts into higher quality retail products.

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 includes 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 presents the significant components of our noninterest expense:

	Year Ended December 31,			
(dollars in millions)	2016	2015	Change	Percent
Salaries and employee benefits	$1,709	$1,636	$73	4%
Outside services	377	371	6	2
Occupancy	307	319	(12)	(4)
Equipment expense	263	257	6	2
Amortization of software	170	146	24	16
Other operating expense	526	530	(4)	(1)
Noninterest expense	$3,352	$3,259	$93	3%

Noninterest expense of $3.4 billion in 2016 increased $93 million, or 3%, compared to 2015 as the impact of higher salaries and employee benefits, amortization of software, equipment expense and outside services expense was partially offset by lower occupancy and other operating expense. Results in 2016 reflected the impact of $36 million of notable items compared with $50 million of restructuring charges and special items in 2015. Excluding the impact of restructuring charges, special items and notable items, adjusted noninterest expense* increased $107 million, driven by higher salaries and employee benefits as the impact of continued investment in strategic growth initiatives and revenue based incentives were partially offset by the benefit of our efficiency initiatives. Results also reflect increased software amortization expense, outside services expense and equipment expense, partially offset by lower other operating expense.

Income Tax Expense

Income tax expense was $489 million and $423 million in 2016 and 2015, respectively. This resulted in an effective tax rate of 31.9% and 33.5% in 2016 and 2015, respectively. The decrease in the effective income tax rate from 2015 to 2016 was primarily attributable to the impact of federal and state tax credits.

At December 31, 2016, we reported a net deferred tax liability of $714 million, compared to a $730 million liability at December 31, 2015. The decrease in the net deferred tax liability was primarily attributable to the tax effect of net unrealized losses on securities and derivatives arising during the period largely offset by the tax effect of current year timing adjustments. For further discussion, see Note 15 "Income Taxes" to our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

Business Segments

The following tables present certain financial data of our operating segments, other and consolidated:

	As of and for the Year Ended December 31, 2016			
(dollars in millions)	Consumer Banking	Commercial Banking	Other [1]	Consolidated
Net interest income	$2,443	$1,288	$27	$3,758
Noninterest income	883	466	148	1,497
Total revenue	3,326	1,754	175	5,255
Noninterest expense	2,547	741	64	3,352
Profit before provision for credit losses	779	1,013	111	1,903
Provision for credit losses	243	47	79	369
Income before income tax expense (benefit)	536	966	32	1,534
Income tax expense (benefit)	191	335	(37)	489
Net income	$345	$631	$69	$1,045
Loans and leases and loans held for sale (year-end)	$57,383	$47,629	$3,282	$108,294
Average Balances:				
Total assets	$56,388	$47,159	$39,636	$143,183
Loans and leases and loans held for sale	55,052	45,903	2,999	103,954
Deposits	72,003	26,811	6,633	105,447
Interest-earning assets	55,101	45,978	29,457	130,536
Key Performance Metrics:				
Net interest margin	4.43%	2.80%	NM	2.86%
Efficiency ratio	76.57	42.26	NM	63.80
Period-end loans to deposits ratio [2]	77.33	166.25	NM	98.62
Average loans to average deposits ratio [2]	76.46	171.21	NM	98.58
Return on average total tangible assets	0.61	1.34	NM	0.76
Return on average tangible common equity [3]	6.68	12.44	NM	7.74

(1) Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, 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 — Loans and Leases-Non-Core Assets."
(2) Ratios include 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 capital and then allocate that approximation to the segments based on economic capital.

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. Residual assets, liabilities, capital and their related revenues, provision for credit losses and expenses are attributed to Other.

Other results include 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 and leases inconsistent with our strategic priorities, generally as a result of geographic location, industry, product type or risk level. Non-core assets totaled $2.8 billion as of December 31, 2016, an increase of $422 million, or 18%, compared to December 31, 2015. This increase was a result of the transfer of a $1.2 billion lease and loan portfolio tied to legacy RBS aircraft leasing borrowers that we placed in runoff following a review of Asset Finance 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 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 Year Ended December 31,			
(dollars in millions)	2016	2015	Change	Percent
Net interest income	$2,443	$2,198	$245	11%
Noninterest income	883	910	(27)	(3)
Total revenue	3,326	3,108	218	7
Noninterest expense	2,547	2,456	91	4
Profit before provision for credit losses	779	652	127	19
Provision for credit losses	243	252	(9)	(4)
Income before income tax expense	536	400	136	34
Income tax expense	191	138	53	38
Net income	$345	$262	$83	32
Loans and leases and loans held for sale (year-end)	$57,383	$53,344	$4,039	8
Average Balances:				
Total assets	$56,388	$52,848	$3,540	7%
Loans and leases and loans held for sale	55,052	51,484	3,568	7
Deposits	72,003	69,748	2,255	3
Interest-earning assets	55,101	51,525	3,576	7
Key Performance Metrics:				
Net interest margin	4.43%	4.27%	16 bps	—
Efficiency ratio	76.57	79.02	(245) bps	—
Period-end loans to deposits ratio [1]	77.33	74.53	280 bps	—
Average loans to average deposits ratio [1]	76.46	73.81	265 bps	—
Return on average total tangible assets	0.61	0.50	11 bps	—
Return on average tangible common equity [2]	6.68	5.53	115 bps	—

(1) Ratios include loans and leases held for sale.
(2) 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 capital and then allocate that approximation to the segments based on economic capital.

Consumer Banking net income of $345 million in 2016 increased $83 million, or 32%, from 2015, reflecting an increase in total revenue, partially offset by an increase in noninterest expense.

Consumer Banking total revenue of $3.3 billion in 2016 increased $218 million from 2015, as net interest income increased driven by loan and deposit growth.

Net interest income of $2.4 billion increased 11% from 2015, driven by the benefit of $3.6 billion average loan growth, reflecting growth in student, residential mortgage, auto and other retail loans as well as improved loan yields.

Noninterest income decreased $27 million, or 3%, largely as growth in service charges and fees and mortgage banking fees were more than offset by the impact of a reclassification of card reward costs and lower trust and investment services fees.

Noninterest expense of $2.5 billion in 2016 increased $91 million, or 4%, from $2.5 billion in 2015, driven by higher salaries and benefits, outside services expense, amortization of software and other operating expense, partially offset by the impact of a reclassification of card reward costs.

Provision for credit losses of $243 million in 2016 decreased $9 million, or 4%, from $252 million in 2015, largely reflecting the benefit of lower real estate secured net charge-offs.

Commercial Banking

	As of and for the Year Ended December 31,			
(dollars in millions)	2016	2015	Change	Percent
Net interest income	$1,288	$1,162	$126	11%
Noninterest income	466	415	51	12
Total revenue	1,754	1,577	177	11
Noninterest expense	741	709	32	5
Profit before provision for credit losses	1,013	868	145	17
Provision for credit losses	47	(13)	60	NM
Income before income tax expense	966	881	85	10
Income tax expense	335	302	33	11
Net income	$631	$579	$52	9
Loans and leases and loans held for sale (year-end)	$47,629	$42,987	$4,642	11
Average Balances:				
Total assets	$47,159	$42,800	$4,359	10%
Loans and leases and loans held for sale	45,903	41,593	4,310	10
Deposits	26,811	23,473	3,338	14
Interest-earning assets	45,978	41,689	4,289	10
Key Performance Metrics:				
Net interest margin	2.80%	2.79%	1 bps	
Efficiency ratio	42.26	44.94	(268) bps	
Period-end loans to deposits ratio [1]	166.25	172.59	(634) bps	
Average loans to average deposits ratio [1]	171.21	177.19	(598) bps	
Return on average total tangible assets	1.34	1.35	(1) bps	
Return on average tangible common equity [2]	12.44	12.41	3 bps	

[1] Ratios include both loans and leases held for sale.
[2] 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 capital and then allocate that approximation to the segments based on economic capital.

Commercial Banking net income of $631 million increased $52 million, or 9%, from 2015, as an increase in total revenue was partially offset by an increase in noninterest expense and provision for credit losses.

Net interest income of $1.3 billion in 2016 increased $126 million, or 11%, from 2015, reflecting the benefit of an increase of $4.3 billion in average loan balances and $3.3 billion in average deposits.

Noninterest income of $466 million in 2016 increased $51 million, or 12%, from 2015, reflecting strength in capital markets fees, service charges and fees and interest rate products.

Noninterest expense of $741 million in 2016 increased $32 million, or 5%, from $709 million in 2015, driven by an increase in salary and employee benefits largely tied to revenue based incentive costs as well as higher FDIC insurance costs.

Provision for credit losses of $47 million in 2016, increased $60 million, from a net recovery of prior period charge-offs of $13 million in 2015, driven by higher losses in the commercial loan portfolio largely tied to commodities-related credits.

Other

	As of and for the Year Ended December 31,			
(dollars in millions)	2016	2015	Change	Percent
Net interest income	$27	$42	($15)	(36%)
Noninterest income	148	97	51	53
Total revenue	175	139	36	26
Noninterest expense	64	94	(30)	(32)
Profit before provision for credit losses	111	45	66	147
Provision for credit losses	79	63	16	25
Income (loss) before income tax benefit	32	(18)	50	NM
Income tax benefit	(37)	(17)	(20)	(118)
Net income (loss)	$69	($1)	$70	NM
Loans and leases and loans held for sale (year-end)	$3,282	$3,076	$206	7
Average Balances:				
Total assets	$39,636	$39,422	$214	1%
Loans and leases and loans held for sale	2,999	3,469	(470)	(14)
Deposits and deposits held for sale	6,633	5,933	700	12
Interest-earning assets	29,457	29,736	(279)	(1)

Other recorded net income of $69 million in 2016 compared to net loss of $1 million in 2015, driven by the net impact of notable items, restructuring charges and special items and lower noninterest expense, offset by an increase in provision for credit losses and a decrease in net interest income. On a quarterly basis, we review and refine our 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.

As mentioned previously, Other includes the non-core portfolio. Non-core assets of $2.8 billion as of December 31, 2016 increased $422 million, or 18%, from December 31, 2015. These results were driven by a $909 million increase in total commercial non-core loans related to the transfer of a $1.2 billion lease and loan portfolio tied to legacy RBS aircraft leasing borrowers that we placed in runoff following a review of Asset Finance in third quarter 2016. The increase in commercial non-core loans was partially offset by a $616 million decrease in total retail non-core loans.

Results of Operations — Year Ended December 31, 2015 Compared with Year Ended December 31, 2014

Net Income

Net income totaled $840 million in 2015, down $25 million, or 3%, from $865 million in 2014, driven by a $106 million after-tax decrease in restructuring charges and special items. 2015 results included $31 million of after-tax restructuring charges. 2014 results included the benefit of a $180 million after-tax gain related to the Chicago Divestiture and $105 million of after-tax restructuring charges related to our separation from RBS and enhanced efficiencies across the organization. Excluding restructuring charges and special items, adjusted net income* increased $81 million, or 10%, from 2014, driven by a pre-tax $133 million increase in revenue and a pre-tax $14 million decrease in noninterest expense.

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

(dollars in millions)	Year Ended December 31, 2015	2014	Change	Percent
Operating Data:				
Net interest income	$3,402	$3,301	$101	3%
Noninterest income	1,422	1,678	(256)	(15)
Total revenue	4,824	4,979	(155)	(3)
Provision for credit losses	302	319	(17)	(5)
Noninterest expense	3,259	3,392	(133)	(4)
Income before income tax expense	1,263	1,268	(5)	—
Income tax expense	423	403	20	5
Net income	840	865	(25)	(3)
Net income available to common stockholders	833	865	(32)	(4)
Return on average tangible common equity	6.45%	6.71%	(26) bps	—

Return on Equity and Assets

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

	December 31, 2015	2014
Return on average total assets	0.62%	0.68%
Return on average common equity	4.30	4.46
Dividend payout ratio	25.73	92.05
Average equity to average assets ratio	14.46	15.20

Net Interest Income

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

	Year Ended December 31,							
	2015			2014			Change	
(dollars in millions)	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Yields/ Rates
Assets								
Interest-bearing cash and due from banks and deposits in banks	$1,746	$5	0.29%	$2,113	$5	0.22%	($367)	7 bps
Taxable investment securities	24,649	621	2.52	24,319	619	2.55	330	(3)
Non-taxable investment securities	9	—	2.60	11	—	2.60	(2)	—
Total investment securities	24,658	621	2.52	24,330	619	2.55	328	(3)
Commercial	32,673	951	2.87	29,993	900	2.96	2,680	(9)
Commercial real estate	8,231	211	2.53	7,158	183	2.52	1,073	1
Leases	3,902	97	2.50	3,776	103	2.73	126	(23)
Total commercial	44,806	1,259	2.78	40,927	1,186	2.86	3,879	(8)
Residential mortgages	12,338	465	3.77	10,729	425	3.96	1,609	(19)
Home equity loans	3,025	163	5.38	3,877	205	5.29	(852)	9
Home equity lines of credit	14,958	441	2.95	15,552	450	2.89	(594)	6
Home equity loans serviced by others	1,117	77	6.94	1,352	91	6.75	(235)	19
Home equity lines of credit serviced by others	453	11	2.44	609	16	2.68	(156)	(24)
Automobile	13,516	372	2.75	11,011	282	2.57	2,505	18
Student	3,313	167	5.03	2,148	102	4.74	1,165	29
Credit cards	1,621	178	10.97	1,651	167	10.14	(30)	83
Other retail	1,003	78	7.75	1,186	88	7.43	(183)	32
Total retail	51,344	1,952	3.80	48,115	1,826	3.80	3,229	—
Total loans and leases (1)	96,150	3,211	3.32	89,042	3,012	3.37	7,108	(5)
Loans held for sale, at fair value	301	10	3.47	163	5	3.10	138	37
Other loans held for sale	95	7	7.22	539	23	4.17	(444)	305
Interest-earning assets	122,950	3,854	3.12	116,187	3,664	3.14	6,763	(2)
Allowance for loan and lease losses	(1,196)			(1,230)			34	
Goodwill	6,876			6,876			—	
Other noninterest-earning assets	6,440			5,791			649	
Total noninterest-earning assets	12,120			11,437			683	
Total assets	$135,070			$127,624			$7,446	
Liabilities and Stockholders' Equity								
Checking with interest	$16,666	$19	0.11%	$14,507	$12	0.08%	$2,159	3 bps
Money market accounts	35,401	115	0.32	31,849	75	0.23	3,552	9
Regular savings	8,057	2	0.03	7,730	2	0.03	327	—
Term deposits	12,424	101	0.82	10,317	67	0.65	2,107	17
Total interest-bearing deposits	72,548	237	0.33	64,403	156	0.24	8,145	9
Interest-bearing deposits held for sale	—	—	—	1,960	4	0.22	(1,960)	(22)
Federal funds purchased and securities sold under agreements to repurchase (2)	3,364	16	0.46	5,699	32	0.55	(2,335)	(9)
Other short-term borrowed funds (3)	5,865	67	1.13	5,640	89	1.56	225	(43)
Long-term borrowed funds	4,479	132	2.95	1,907	82	4.25	2,572	(130)
Total borrowed funds	13,708	215	1.56	13,246	203	1.51	462	5
Total interest-bearing liabilities	86,256	452	0.52	79,609	363	0.45	6,647	7
Demand deposits	26,606			25,739			867	
Demand deposits held for sale	—			462			(462)	
Other liabilities	2,671			2,415			256	
Total liabilities	115,533			108,225			7,308	
Stockholders' equity	19,537			19,399			138	
Total liabilities and stockholders' equity	$135,070			$127,624			$7,446	
Interest rate spread			2.60			2.69		(9)
Net interest income		$3,402			$3,301			
Net interest margin			2.75%			2.83%		(8)bps
Memo: Total deposits (interest-bearing and demand)	$99,154	$237	0.24%	$92,564	$160	0.17%	$6,590	7 bps

(1) Interest income and rates on loans include loan fees. Additionally, $1.1 billion and $1.2 billion of average nonaccrual loans were included in the average loan balances used to determine the average yield on loans for December 2015 and 2014, respectively.

(2) 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 ran off in 2016. See "—Analysis of Financial Condition — Derivatives" for further information.

(3) The rate on other short-term borrowed funds is elevated due to the impact from pay-fixed interest rate swaps. See "—Analysis of Financial Condition — Derivatives" for further information.

Net interest income of $3.4 billion in 2015 increased $101 million, or 3%, compared to $3.3 billion in 2014, as the benefit of earning asset growth and a reduction in pay-fixed swap costs was partially offset by continued pressure from the relatively persistent low-rate environment on loan yields and mix, higher borrowing costs related to debt issuances, and higher deposit costs.

Average interest-earning assets increased $6.8 billion, or 6%, from 2014 due to a $3.9 billion increase in average commercial loans and leases, and a $3.2 billion increase in average retail loans as growth in auto, mortgage, and student loan balances, were partially offset by lower home equity outstandings, and a reduction in the non-core loan portfolio.

2015 net interest margin of 2.75% declined eight basis points compared to 2.83% in 2014 as the benefit of lower pay-fixed swap costs was more than offset by increased deposit costs, higher senior and subordinated debt borrowing costs and a modest decrease in loan yields. 2015 average interest-earning asset yields of 3.12% declined two basis points from 3.14% in 2014, reflecting the decline in the commercial loan and lease portfolio yields given the continued impact of the relatively persistent low-rate environment. Investment portfolio income of $621 million in 2015 remained relatively stable compared to $619 million in 2014.

Total interest-bearing deposit costs of $237 million in 2015 increased $81 million, or 52%, from $156 million in 2014 and reflected a nine basis point increase in the rate paid on deposits to 0.33% from 0.24%. The increase in deposit costs reflected a shift in mix to longer duration deposits, largely term and money market products. The cost of term deposits increased to 0.82% in 2015 from 0.65% in 2014, and money market accounts and savings accounts increased to 0.27% in 2015 from 0.19% in 2014.

Total borrowed funds costs of $215 million in 2015 increased modestly from 2014. Within the federal funds purchased and securities sold under agreements to repurchase and other short-term borrowed funds, pay-fixed swap expense declined to $58 million for 2015 compared to $99 million in 2014. Including the impact of hedging costs, total borrowed funds rates increased to 1.56% from 1.51% in 2014. The increase in long-term borrowing expense of $50 million was driven by an increase in senior and subordinated debt as we continued to realign our liability and capital structure to better align with peers.

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

	Year Ended December 31,		
	2015 Versus 2014		
(in millions)	Average Volume	Average Rate	Net Change
Interest Income			
Interest-bearing cash and due from banks and deposits in banks	($1)	$1	$—
Taxable investment securities	9	(7)	2
Non-taxable investment securities	—	—	—
Total investment securities	9	(7)	2
Commercial	79	(28)	51
Commercial real estate	27	1	28
Leases	3	(9)	(6)
Total commercial	109	(36)	73
Residential mortgages	63	(23)	40
Home equity loans	(44)	2	(42)
Home equity lines of credit	(18)	9	(9)
Home equity loans serviced by others	(17)	3	(14)
Home equity lines of credit serviced by others	(4)	(1)	(5)
Automobile	65	25	90
Student	55	10	65
Credit cards	(3)	14	11
Other retail	(14)	4	(10)
Total retail	83	43	126
Total loans and leases	192	7	199
Loans held for sale, at fair value	5	—	5
Other loans held for sale	(18)	2	(16)
Total interest income	$187	$3	$190
Interest Expense			
Checking with interest	$—	$7	$7
Money market accounts	8	32	40
Term deposits	14	20	34
Total interest-bearing deposits	22	59	81
Interest-bearing deposits held for sale	(4)	—	(4)
Federal funds purchased and securities sold under agreements to repurchase	(13)	(3)	(16)
Other short-term borrowed funds	4	(26)	(22)
Long-term borrowed funds	109	(59)	50
Total borrowed funds	100	(88)	12
Total interest expense	118	(29)	89
Net interest income	$69	$32	$101

Noninterest Income

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

(dollars in millions)	Year Ended December 31, 2015	2014	Change	Percent
Service charges and fees	$575	$574	$1	—%
Card fees	232	233	(1)	—
Trust and investment services fees	157	158	(1)	(1)
Mortgage banking fees	101	71	30	42
Capital markets fees	88	91	(3)	(3)
Foreign exchange and letter of credit fees	90	95	(5)	(5)
Bank-owned life insurance income	56	49	7	14
Securities gains, net	29	28	1	4
Other income [1]	94	379	(285)	(75)
Noninterest income	$1,422	$1,678	($256)	(15%)

[1] Includes net securities impairment losses on securities available for sale recognized in earnings and other income. Additionally, noninterest income for the year ended December 31, 2014 reflects a $288 million pre-tax gain related to the Chicago Divestiture.

Noninterest income of $1.4 billion in 2015 decreased $256 million, or 15%, compared to $1.7 billion in 2014, which included a $288 million pre-tax gain related to the Chicago Divestiture. Excluding the gain, adjusted noninterest income* increased $32 million. Service charges and fees, card fees and trust and investment services fees remained relatively stable. Mortgage banking fees increased $30 million reflecting the benefit of improved portfolio sales gains and higher origination volumes. Capital markets fees decreased $3 million, reflecting lower overall market conditions. Securities gains remained relatively stable. Adjusted other income*, excluding the impact of the $288 million pre-tax Chicago gain recorded in the second quarter of 2014, increased $3 million.

Provision for Credit Losses

Provision for credit losses of $302 million in 2015 declined $17 million from $319 million in 2014, reflecting continued improvement in credit quality. Net charge-offs for 2015 totaled $284 million, or 0.30% of average loans, compared to $323 million, or 0.36%, in 2014. The provision for credit losses includes the provision for loan and lease losses as well as the provision for unfunded commitments.

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:

(dollars in millions)	Year Ended December 31, 2015	2014	Change	Percent
Salaries and employee benefits	$1,636	$1,678	($42)	(3%)
Outside services	371	420	(49)	(12)
Occupancy	319	326	(7)	(2)
Equipment expense	257	250	7	3
Amortization of software	146	145	1	1
Other operating expense	530	573	(43)	(8)
Noninterest expense	$3,259	$3,392	($133)	(4%)

Noninterest expense of $3.3 billion in 2015 declined $133 million or 4%, compared to $3.4 billion 2014, driven by a $119 million decrease in restructuring charges and special items. Excluding the impact of the restructuring charges and special items, adjusted noninterest expense* decreased $14 million, driven by lower occupancy expense, salaries and employee benefits and other operating expense, partially offset by higher equipment, amortization of software, and outside services. Results reflected the impact of the Chicago Divestiture and investments to drive future growth, offset by the benefit of efficiency initiatives.

Income Tax Expense

Income tax expense of $423 million increased from $403 million in 2014, respectively and reflected an effective tax rate of 33.5%, which increased from 31.8% in 2014. The increase in the effective income tax rate related to the tax-rate impact of combined reporting legislation, non-deductible permanent expense items, and the adoption of ASU No. 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects." The application of this guidance resulted in the reclassification of the amortization of these investments to income tax expense from noninterest income. Furthermore, these increases were partially offset by the tax rate impact of the gain on the Chicago Divestiture in the second quarter of 2014.

At December 31, 2015, we reported a net deferred tax liability of $730 million, compared to a $493 million liability at December 31, 2014. The increase in the net deferred tax liability was primarily attributable to the increase in the deferred tax liability related to temporary differences of $261 million. For further discussion, see Note 15 "Income Taxes" to our Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

Business Segments

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. 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 $2.3 billion as of December 31, 2015, down 25% from December 31, 2014. The largest component of our non-core portfolio is our home equity products currently or formerly serviced by others portfolio.

The following tables present certain financial data of our operating segments, other and consolidated:

	As of and for the Year Ended December 31, 2015			
(dollars in millions)	Consumer Banking	Commercial Banking	Other [(1)]	Consolidated
Net interest income	$2,198	$1,162	$42	$3,402
Noninterest income	910	415	97	1,422
Total revenue	3,108	1,577	139	4,824
Noninterest expense	2,456	709	94	3,259
Profit before provision for credit losses	652	868	45	1,565
Provision for credit losses	252	(13)	63	302
Income (loss) before income tax expense (benefit)	400	881	(18)	1,263
Income tax expense (benefit)	138	302	(17)	423
Net income (loss)	$262	$579	($1)	$840
Loans and leases and loans held for sale (year-end)	$53,344	$42,987	$3,076	$99,407
Average Balances:				
Total assets	$52,848	$42,800	$39,422	$135,070
Loans and leases and loans held for sale	51,484	41,593	3,469	96,546
Deposits	69,748	23,473	5,933	99,154
Interest-earning assets	51,525	41,689	29,736	122,950
Key Performance Metrics:				
Net interest margin	4.27%	2.79%	NM	2.75%
Efficiency ratio	79.02	44.94	NM	67.56
Average loans to average deposits ratio [(2)]	73.81	177.19	NM	97.37
Return on average total tangible assets	0.50	1.35	NM	0.65
Return on average tangible common equity [(3)]	5.53	12.41	NM	6.45

(1) Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, 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 — Loans and Leases-Non-Core Assets."

(2) Ratios include 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 capital and then allocate that approximation to the segments based on economic capital.

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 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 Year Ended December 31,			
(dollars in millions)	**2015**	**2014**	**Change**	**Percent**
Net interest income	$2,198	$2,151	$47	2%
Noninterest income	910	899	11	1
Total revenue	3,108	3,050	58	2
Noninterest expense	2,456	2,513	(57)	(2)
Profit before provision for credit losses	652	537	115	21
Provision for credit losses	252	259	(7)	(3)
Income before income tax expense	400	278	122	44
Income tax expense	138	96	42	44
Net income	$262	$182	$80	44
Loans and leases and loans held for sale (year-end)	$53,344	$49,919	$3,425	7
Average Balances:				
Total assets	$52,848	$48,939	$3,909	8%
Loans and leases and loans held for sale [(1)]	51,484	47,745	3,739	8
Deposits and deposits held for sale [(2)]	69,748	68,214	1,534	2
Interest-earning assets	51,525	47,777	3,748	8
Key Performance Metrics:				
Net interest margin	4.27%	4.50%	(23) bps	—
Efficiency ratio	79.02	82.39	(337) bps	—
Average loans to average deposits ratio [(3)]	73.81	69.99	382 bps	—
Return on average total tangible assets	0.50	0.37	13 bps	—
Return on average tangible common equity [(4)]	5.53	3.90	163 bps	—

(1) Average loans held for sale for the year ended December 31, 2014 include loans relating to the Chicago Divestiture.
(2) Average deposits held for sale for the year ended December 31, 2014 include deposits relating to the Chicago Divestiture.
(3) Ratios include both loans and leases held for sale and deposits held for sale.
(4) 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 capital and then allocate that approximation to the segments based on economic capital.

Consumer Banking net income of $262 million in 2015 increased $80 million, or 44%, from 2014, reflecting higher revenue and lower expense.

Consumer Banking total revenue of $3.1 billion in 2015 increased $58 million from 2014 despite the impact of the Chicago Divestiture, driven by loan and deposit growth as well as growth in overall fee revenue tied to mortgage banking and service charges, net.

Net interest income of $2.2 billion increased 2% from 2014, driven by the benefit of loan growth, with particular strength in auto, residential mortgage and student loans of $910 million partially offset by the effect of the relatively persistent low-rate environment as well as the impact of the Chicago Divestiture. Noninterest income increased 1% driven by strength in mortgage banking and higher service charges, partially offset by the Chicago Divestiture.

Noninterest expense of $2.5 billion in 2015 decreased $57 million, or 2%, from $2.5 billion in 2014, reflecting a combination of the Chicago Divestiture and cost saving actions, offset by the continued investment in the business to drive future growth.

Provision for credit losses of $252 million in 2015 decreased $7 million, or 3%, from $259 million in 2014, reflecting continued improvement in credit quality, partially offset by the continued growth in loan balances.

Commercial Banking

	As of and for the Year Ended December 31,			
(dollars in millions)	2015	2014	Change	Percent
Net interest income	$1,162	$1,073	$89	8%
Noninterest income	415	429	(14)	(3)
Total revenue	1,577	1,502	75	5
Noninterest expense	709	652	57	9
Profit before provision for credit losses	868	850	18	2
Provision for credit losses	(13)	(6)	(7)	(117)
Income before income tax expense	881	856	25	3
Income tax expense	302	295	7	2
Net income	$579	$561	$18	3
Loans and leases and loans held for sale (year-end)	$42,987	$39,861	$3,126	8
Average Balances:				
Total assets	$42,800	$38,483	$4,317	11%
Loans and leases and loans held for sale [(1)]	41,593	37,683	3,910	10
Deposits and deposits held for sale [(2)]	23,473	19,838	3,635	18
Interest-earning assets	41,689	37,809	3,880	10
Key Performance Metrics:				
Net interest margin	2.79%	2.84%	(5) bps	—
Efficiency ratio	44.94	43.37	157 bps	—
Average loans to average deposits ratio [(3)]	177.19	189.96	(1,277) bps	—
Return on average total tangible assets	1.35	1.46	(11) bps	—
Return on average tangible common equity [(4)]	12.41	13.43	(102) bps	—

(1) Average loans held for sale for the year ended December 31, 2014 include loans relating to the Chicago Divestiture.
(2) Average deposits held for sale for the year ended December 31, 2014 include deposits relating to the Chicago Divestiture.
(3) Ratios include both loans and leases held for sale and deposits held for sale.
(4) 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 capital and then allocate that approximation to the segments based on economic capital.

Commercial Banking net income of $579 million increased $18 million, or 3%, from 2014, as an increase in net interest income driven by strong balance sheet growth, deposit cost improvement and reduced impairment costs more than offset lower noninterest income and an increase in noninterest expense.

Net interest income of $1.2 billion in 2015 increased $89 million, or 8%, from 2014, reflecting the benefit of an increase of $3.9 billion in average loan balances and $3.6 billion in average deposits, partially offset by spread compression.

Noninterest income of $415 million in 2015 decreased $14 million, or 3%, from 2014 as the benefit of an increase in service charges and fees, interest rate products, and card fees was more than offset by lower leasing income, foreign exchange and letter of credit fees, and capital markets fee income.

Noninterest expense of $709 million in 2015 increased $57 million, or 9%, from $652 million in 2014, reflecting increased salary and benefits costs, outside services, and insurance expense, including continued investments to drive future growth.

Provision for credit losses resulted in a net recovery of $13 million in 2015 compared to a net recovery of $6 million in 2014 and reflected continued improvement in credit quality.

Other

	As of and for the Year Ended December 31,			
(dollars in millions)	2015	2014	Change	Percent
Net interest income	$42	$77	($35)	(45%)
Noninterest income	97	350	(253)	(72)
Total revenue	139	427	(288)	(67)
Noninterest expense	94	227	(133)	(59)
Profit before provision for credit losses	45	200	(155)	(78)
Provision for credit losses	63	66	(3)	(5)
(Loss) income before income tax (benefit) expense	(18)	134	(152)	(113)
Income tax (benefit) expense	(17)	12	(29)	(242)
Net (loss) income	($1)	$122	($123)	(101)
Loans and leases and loans held for sale (year-end)	$3,076	$3,911	($835)	(21)
Average Balances:				
Total assets	$39,422	$40,202	($780)	(2%)
Loans and leases and loans held for sale	3,469	4,316	(847)	(20)
Deposits and deposits held for sale	5,933	4,512	1,421	31
Interest-earning assets	29,736	30,601	(865)	(3)

Other recorded a net loss of $1 million in 2015 compared to net income of $122 million in 2014. The net loss in 2015 included $31 million of after-tax restructuring charges and special items. Net income in 2014 included a $180 million after-tax gain related to the Chicago Divestiture partially offset by $105 million of after-tax restructuring charges and special items. Excluding these items, adjusted net income* decreased by $17 million.

Net interest income in 2015 decreased $35 million to $42 million compared to $77 million in 2014. The decrease was driven primarily by an increase in wholesale funding costs, and lower non-core loans, partially offset by a reduction in interest rate swap costs.

Noninterest income in 2015 decreased $253 million driven by the $288 million pre-tax gain on the Chicago Divestiture. Excluding the gain, adjusted noninterest income* increased $35 million driven by an accounting change for low-income housing investments, which is offset in income tax expense.

Noninterest expense in 2015 of $94 million decreased $133 million from 2014, reflecting lower restructuring charges and special items of $119 million and lower employee incentive costs.

The provision for credit losses in 2015 decreased $3 million to $63 million compared to $66 million in 2014, reflecting stable credit quality and a decrease in non-core net charge-offs of $23 million to $44 million in 2015 compared to $67 million in 2014. On a quarterly basis, we review and refine our 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. The provision also reflected an increase in overall credit exposure associated with growth in our loan portfolio.

Total assets as of December 31, 2015 included $2.1 billion and $4.7 billion of goodwill related to the Consumer Banking and Commercial Banking reporting units, respectively. For further information regarding the reconciliation of segment results to GAAP results, see Note 23 "Business Segments" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

Analysis of Financial Condition

Securities

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

	December 31, 2016		December 31, 2015		December 31, 2014		Change in Fair Value from 2016-2015	
(dollars in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value		
Securities Available for Sale:								
U.S. Treasury and other	$30	$30	$16	$16	$15	$15	$14	88 %
State and political subdivisions	8	8	9	9	10	10	(1)	(11)
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	19,231	19,045	17,234	17,320	17,683	17,934	1,725	10
Other/non-agency	427	401	555	522	703	672	(121)	(23)
Total mortgage-backed securities	19,658	19,446	17,789	17,842	18,386	18,606	1,604	9
Total debt securities	19,696	19,484	17,814	17,867	18,411	18,631	1,617	9
Marketable equity securities	5	5	5	5	10	13	—	—
Other equity securities	12	12	12	12	12	12	—	—
Total equity securities	17	17	17	17	22	25	—	—
Total securities available for sale	$19,713	$19,501	$17,831	$17,884	$18,433	$18,656	$1,617	9 %
Securities Held to Maturity:								
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	$4,126	$4,094	$4,105	$4,121	$3,728	$3,719	($27)	(1%)
Other/non-agency	945	964	1,153	1,176	1,420	1,474	(212)	(18)
Total securities held to maturity	$5,071	$5,058	$5,258	$5,297	$5,148	$5,193	($239)	(5%)
Other Investment Securities, at Fair Value:								
Money market mutual fund	$91	$91	$65	$65	$28	$28	$26	40 %
Other investments	5	5	5	5	5	5	—	—
Total other investment securities, at fair value	$96	$96	$70	$70	$33	$33	$26	37 %
Other Investment Securities, at Cost:								
Federal Reserve Bank stock	$463	$463	$468	$468	$477	$477	($5)	(1%)
Federal Home Loan Bank stock	479	479	395	395	390	390	84	21
Total other investment securities, at cost	$942	$942	$863	$863	$867	$867	$79	9 %

As of December 31, 2016, the fair value of the AFS and HTM securities portfolio increased $1.4 billion to $24.6 billion, compared with $23.2 billion as of December 31, 2015, driven by net purchases of $1.7 billion in securities that were bought for liquidity management purposes and offset by a decrease in market value of $300 million due to an increase in interest rates.

As of December 31, 2016, the portfolio's average effective duration was 4.3 years compared with 3.5 years as of December 31, 2015. Higher long-term rates reduced prepayment speed forecasts on mortgages, extending the duration on mortgage backed securities. The increase in securities duration was most pronounced in the fourth quarter of 2016 as interest rates increased significantly in this period. We manage the securities portfolio duration through asset selection and securities structure which combine to limit the duration extension.

The securities portfolio includes high quality, highly liquid investments reflecting our ongoing commitment to maintaining appropriate contingent liquidity and pledging capacity. U.S. government-guaranteed notes and government-sponsored entity-issued mortgage-backed securities represent the vast majority of the securities portfolio holdings. The portfolio composition is also dominated by holdings backed by mortgages to facilitate our ability to pledge them to the FHLBs. This has become increasingly important due to the enhanced liquidity requirements of the liquidity coverage ratio. For further discussion of the liquidity coverage ratios, see "Regulation and Supervision — Liquidity Standards" in Part I, Item 1 — Business, included in this report.

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

	As of December 31, 2016				
	Distribution of Maturities				
(dollars in millions)	Due in 1 Year or Less	Due After 1 Through 5 Years	Due After 5 Through 10 Years	Due After 10 Years	Total
Amortized cost:					
Debt securities available for sale:					
U.S. Treasury and other	$30	$—	$—	$—	$30
State and political subdivisions	—	—	—	8	8
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	1	27	1,177	18,026	19,231
Other/non-agency	—	36	3	388	427
Total debt securities available for sale	31	63	1,180	18,422	19,696
Debt securities held to maturity:					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	4,126	4,126
Other/non-agency	—	—	—	945	945
Total debt securities held to maturity	—	—	—	5,071	5,071
Total amortized cost of debt securities (1)	$31	$63	$1,180	$23,493	$24,767
Weighted-average yield (2)	0.63%	4.71%	2.26%	2.50%	2.49%

(1) As of December 31, 2016, no investments exceeded 10% of stockholders' equity.
(2) Yields on tax-exempt securities are not computed on a tax-equivalent basis.

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, which we now service a portion of internally.

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

	December 31,					Change from 2016-2015	
(dollars in millions)	2016	2015	2014	2013	2012	$	%
Commercial	$37,274	$33,264	$31,431	$28,667	$28,856	$4,010	12%
Commercial real estate	10,624	8,971	7,809	6,948	6,459	1,653	18
Leases	3,753	3,979	3,986	3,780	3,415	(226)	(6)
Total commercial	51,651	46,214	43,226	39,395	38,730	5,437	12
Residential mortgages	15,115	13,318	11,832	9,726	9,323	1,797	13
Home equity loans	1,858	2,557	3,424	4,301	5,106	(699)	(27)
Home equity lines of credit	14,100	14,674	15,423	15,667	16,672	(574)	(4)
Home equity loans serviced by others	750	986	1,228	1,492	2,024	(236)	(24)
Home equity lines of credit serviced by others	219	389	550	679	936	(170)	(44)
Automobile	13,938	13,828	12,706	9,397	8,944	110	1
Student	6,610	4,359	2,256	2,208	2,198	2,251	52
Credit cards	1,691	1,634	1,693	1,691	1,691	57	3
Other retail	1,737	1,083	1,072	1,303	1,624	654	60
Total retail	56,018	52,828	50,184	46,464	48,518	3,190	6
Total loans and leases	$107,669	$99,042	$93,410	$85,859	$87,248	$8,627	9%

Total loans and leases of $107.7 billion as of December 31, 2016, increased $8.6 billion, or 9%, from $99.0 billion as of December 31, 2015, reflecting growth in both commercial and retail products. Total commercial loans and leases of $51.7 billion grew $5.4 billion, or 12%, from $46.2 billion as of December 31, 2015, reflecting commercial loan growth of $4.0 billion and commercial real estate loan growth of $1.7 billion. Total retail loans of $56.0 billion increased by $3.2 billion, or 6%, from $52.8 billion as of December 31, 2015, largely driven by a $2.3 billion increase in student loans and a $1.8 billion increase in residential mortgages, partially offset by lower home equity balances.

Loan purchases and sales in 2016, including loans held for sale, net of runoff of previously purchased loans, reduced loan growth by $202 million. See Note 4 "Loans and Leases" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report, for further information.

Maturities and Sensitivities of Loans and Leases to Changes in Interest Rates

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

	December 31, 2016			
(in millions)	Due in 1 Year or Less	Due After 1 Year Through 5 Years	Due After 5 Years	Total Loans and Leases
Commercial	$31,704	$3,508	$2,062	$37,274
Commercial real estate	10,423	61	140	10,624
Leases	601	2,183	969	3,753
Total commercial	42,728	5,752	3,171	51,651
Residential mortgages	1,414	1,228	12,473	15,115
Home equity loans	459	282	1,117	1,858
Home equity lines of credit	12,089	693	1,318	14,100
Home equity loans serviced by others	—	466	284	750
Home equity lines of credit serviced by others	219	—	—	219
Automobile	131	8,254	5,553	13,938
Student	14	630	5,966	6,610
Credit cards	1,471	220	—	1,691
Other retail	500	834	403	1,737
Total retail	16,297	12,607	27,114	56,018
Total loans and leases	$59,025	$18,359	$30,285	$107,669
Loans and leases due after one year at fixed interest rates		$14,464	$20,618	$35,082
Loans and leases due after one year at variable interest rates		3,895	9,667	13,562

Loan and Lease Concentrations

At December 31, 2016, we did not identify any concentration of loans and leases that exceeded 10% of total loans and leases which were not otherwise disclosed as a category of loans and leases. For further information on how we managed concentration exposures, see Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

Non-Core Assets

The table below presents the composition of our non-core assets:

	December 31,			
(dollars in millions)	2016	2015	Change	Percent
Commercial	$144	$38	$106	279%
Commercial real estate	59	130	(71)	(55)
Leases	874	—	874	100
Total commercial	1,077	168	909	541
Residential mortgages	173	297	(124)	(42)
Home equity loans	45	69	(24)	(35)
Home equity lines of credit	50	74	(24)	(32)
Home equity loans serviced by others	750	986	(236)	(24)
Home equity lines of credit serviced by others	219	389	(170)	(44)
Student	291	329	(38)	(12)
Total retail	1,528	2,144	(616)	(29)
Total non-core loans	2,605	2,312	293	13
Other assets	155	26	129	496
Total non-core assets	$2,760	$2,338	$422	18%

Non-core assets are primarily loans and leases inconsistent with our strategic priorities, generally as a result of geographic location, industry, product type or risk level and are included in Other. Non-core assets of $2.8 billion as of December 31, 2016 increased $422 million, or 18%, from December 31, 2015. These results were driven by a $909 million increase in total commercial non-core loans related to the transfer of a $1.2 billion lease and loan portfolio tied to legacy RBS aircraft leasing borrowers that we placed in runoff following a review of Asset Finance in third quarter 2016. The increase in total commercial non-core loans was partially offset by a $616 million decrease in total retail non-core loans.

Retail non-core loan balances of $1.5 billion decreased $616 million, or 29%, compared to December 31, 2015. The largest component of our retail non-core portfolio is the home equity SBO portfolio, which totaled $969 million as of December 31, 2016, compared to $1.4 billion as of December 31, 2015. The SBO portfolio is a liquidating portfolio consisting of pools of home equity loans and lines of credit purchased between 2003 and 2007. Although our SBO portfolio consists of loans that were initially serviced by others, we now service a portion of this portfolio internally. SBO balances serviced externally totaled $505 million and $763 million as of December 31, 2016 and 2015, respectively. The SBO portfolio has been closed to new purchases since the third quarter of 2007. The SBO portfolio represented 3% of the retail real estate secured portfolio and 2% of the overall retail loan portfolio as of December 31, 2016.

The credit profile of the SBO portfolio was weaker than the core real estate portfolio, with a weighted-average refreshed FICO score of 711 and CLTV of 87% as of December 31, 2016. The proportion of the portfolio in a second lien position was 96% with 71% of the portfolio in out-of-footprint geographies including 27% in California, Nevada, Arizona and Florida.

SBO net charge-offs of $25 million in 2016 increased $4 million from 2015 and totaled 2.17% of the SBO portfolio in 2016 compared to 1.29% in 2015, driven by balance liquidation.

Allowance for Credit Losses and Nonperforming Assets

We and our banking subsidiaries, CBNA and CBPA, maintain an allowance for credit losses, consisting of an ALLL and a reserve for unfunded lending commitments. This allowance is created through charges to income, specifically through the provision for credit loss account, and is maintained at an appropriate level adequate to absorb anticipated losses and is determined in accordance with GAAP. For further information on our processes to determine our allowance for credit losses, see "—Critical

Accounting Estimates — Allowance for Credit Losses," Note 1 "Significant Accounting Policies" and Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

Summary of Loan and Lease Loss Experience

The following table summarized the changes to our ALLL:

	As of and for the Year Ended December 31,				
(dollars in millions)	2016	2015	2014	2013	2012
Allowance for Loan and Lease Losses — Beginning:					
Commercial	$376	$388	$361	$379	$394
Commercial real estate	111	61	78	111	279
Leases	23	23	24	19	18
Qualitative [(1)]	86	72	35	—	—
Total commercial	596	544	498	509	691
Residential mortgages	46	63	104	74	105
Home equity loans	39	50	85	82	62
Home equity lines of credit	132	152	159	107	116
Home equity loans serviced by others	29	47	85	146	241
Home equity lines of credit serviced by others	3	11	18	32	52
Automobile	106	58	23	30	40
Student	96	93	83	75	73
Credit cards	60	68	72	65	72
Other retail	28	32	34	46	55
Qualitative [(1)]	81	77	60	—	—
Total retail	620	651	723	657	816
Unallocated [(1)] *(Eliminated in 2013)*	—	—	—	89	191
Total allowance for loan and lease losses — beginning	$1,216	$1,195	$1,221	$1,255	$1,698
Gross Charge-offs:					
Commercial	($56)	($30)	($31)	($72)	($127)
Commercial real estate	(14)	(6)	(12)	(36)	(129)
Leases	(9)	—	—	—	(1)
Total commercial	(79)	(36)	(43)	(108)	(257)
Residential mortgages	(21)	(22)	(36)	(54)	(85)
Home equity loans	(16)	(34)	(55)	(77)	(121)
Home equity lines of credit	(43)	(59)	(80)	(102)	(118)
Home equity loans serviced by others	(38)	(32)	(55)	(119)	(220)
Home equity lines of credit serviced by others	(12)	(14)	(12)	(27)	(48)
Automobile	(160)	(117)	(41)	(19)	(29)
Student	(52)	(51)	(54)	(74)	(88)
Credit cards	(58)	(59)	(64)	(68)	(68)
Other retail	(57)	(56)	(53)	(55)	(76)
Total retail	(457)	(444)	(450)	(595)	(853)
Total gross charge-offs	($536)	($480)	($493)	($703)	($1,110)

	As of and for the Year Ended December 31,				
(dollars in millions)	2016	2015	2014	2013	2012
Gross Recoveries:					
Commercial	$21	$18	$35	$46	$64
Commercial real estate	12	31	23	40	47
Leases	—	—	—	1	2
Total commercial	33	49	58	87	113
Residential mortgages	9	12	11	10	16
Home equity loans	18	11	24	26	27
Home equity lines of credit	18	18	15	19	9
Home equity loans serviced by others	19	17	21	23	22
Home equity lines of credit serviced by others	6	8	5	5	5
Automobile	65	49	20	12	21
Student	11	12	9	13	14
Credit cards	8	8	7	7	8
Other retail	14	12	—	—	—
Total retail	168	147	112	115	122
Total gross recoveries	$201	$196	$170	$202	$235
Net (Charge-offs)/Recoveries:					
Commercial	($35)	($12)	$4	($26)	($63)
Commercial real estate	(2)	25	11	4	(82)
Leases	(9)	—	—	1	1
Total commercial	(46)	13	15	(21)	(144)
Residential mortgages	(12)	(10)	(25)	(44)	(69)
Home equity loans	2	(23)	(31)	(51)	(94)
Home equity lines of credit	(25)	(41)	(65)	(83)	(109)
Home equity loans serviced by others	(19)	(15)	(34)	(96)	(198)
Home equity lines of credit serviced by others	(6)	(6)	(7)	(22)	(43)
Automobile	(95)	(68)	(21)	(7)	(8)
Student	(41)	(39)	(45)	(61)	(74)
Credit cards	(50)	(51)	(57)	(61)	(60)
Other retail	(43)	(44)	(53)	(55)	(76)
Total retail	(289)	(297)	(338)	(480)	(731)
Total net (charge-offs)/recoveries	($335)	($284)	($323)	($501)	($875)
Ratio of net charge-offs to average loans and leases	(0.32%)	(0.30%)	(0.36%)	(0.59%)	(1.01%)
Provision for Loan and Lease Losses:					
Commercial	$117	$—	$23	$13	$48
Commercial real estate	(17)	25	(28)	(36)	(84)
Leases	34	—	(1)	4	—
Qualitative [(1)]	(21)	14	37	—	—
Total commercial	113	39	31	(19)	(36)
Residential mortgages	8	(7)	(16)	53	38
Home equity loans	(22)	12	(4)	32	114
Home equity lines of credit	9	21	58	85	100
Home equity loans serviced by others	(1)	(3)	(4)	35	103
Home equity lines of credit serviced by others	6	(2)	—	8	23
Automobile	99	116	56	—	(2)
Student	21	42	55	69	76
Credit cards	53	43	53	71	53
Other retail	42	40	51	43	67
Qualitative [(1)]	27	4	17	—	—
Total retail	242	266	266	396	572
Unallocated[(1)] *(Eliminated in 2013)*	—	—	—	103	(102)
Total provision for loan and lease losses	$355	$305	$297	$480	$434

	As of and for the Year Ended December 31,				
(dollars in millions)	2016	2015	2014	2013	2012
Transfers - General Allowance to Qualitative Allowance: [(1)]					
Commercial	$—	$—	$—	$35	$—
Retail	—	—	—	60	—
Unallocated[(1)] *(Eliminated in 2013)*	—	—	—	(95)	—
Total Transfers	$—	$—	$—	$—	$—
Retail Emergence Period Change: [(2)]					
Residential mortgages	$—	$—	$—	$21	$—
Home equity loans	—	—	—	22	—
Home equity lines of credit	—	—	—	53	—
Total retail	—	—	—	96	—
Unallocated[(1)] *(Eliminated in 2013)*	—	—	—	(96)	—
Total emergence period change	$—	$—	$—	$—	$—
Sale/Other:					
Commercial	$—	$—	$—	($5)	$—
Commercial real estate	—	—	—	(1)	(2)
Total commercial	—	—	—	(6)	(2)
Residential mortgages	—	—	—	—	—
Home equity loans	—	—	—	—	—
Home equity lines of credit	—	—	—	(3)	—
Home equity loans serviced by others	—	—	—	—	—
Home equity lines of credit serviced by others	—	—	—	—	—
Automobile	—	—	—	—	—
Student	—	—	—	—	—
Credit cards	—	—	—	(3)	—
Other retail	—	—	—	—	—
Total retail	—	—	—	(6)	—
Unallocated[(1)] *(Eliminated in 2013)*	—	—	—	(1)	—
Total sale/other	$—	$—	$—	($13)	($2)
Total Allowance for Loan and Lease Losses — Ending:					
Commercial	458	376	$388	$361	$379
Commercial real estate	92	111	61	78	111
Leases	48	23	23	24	19
Qualitative [(1)]	65	86	72	35	—
Total commercial	663	596	544	498	509
Residential mortgages	42	46	63	104	74
Home equity loans	19	39	50	85	82
Home equity lines of credit	116	132	152	159	107
Home equity loans serviced by others	9	29	47	85	146
Home equity lines of credit serviced by others	3	3	11	18	32
Automobile	110	106	58	23	30
Student	76	96	93	83	75
Credit cards	63	60	68	72	65
Other retail	27	28	32	34	46
Qualitative [(1)]	108	81	77	60	—
Total retail	573	620	651	723	657
Unallocated [(1)] *(Eliminated in 2013)*	—	—	—	—	89
Total allowance for loan and lease losses — ending	$1,236	$1,216	$1,195	$1,221	$1,255

	As of and for the Year Ended December 31,				
(dollars in millions)	2016	2015	2014	2013	2012
Reserve for Unfunded Lending Commitments — Beginning	$58	$61	$39	$40	$61
Provision for unfunded lending commitments	14	(3)	22	(1)	(21)
Reserve for unfunded lending commitments — ending	$72	$58	$61	$39	$40
Total Allowance for Credit Losses — Ending	$1,308	$1,274	$1,256	$1,260	$1,295

(1) As discussed in Note 1 "Significant Accounting Policies" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report, the ALLL is reviewed separately for commercial and retail loans, and the ALLL for each includes an adjustment for qualitative allowance that includes certain risks, factors and events that might not be measured in the statistical analysis. As a result of this adjustment, the unallocated allowance was absorbed into the separately measured commercial and retail qualitative allowance during 2013.

(2) During December 2016, changes to the incurred loss period were reflected as components of the provision for retail property secured products. During December 2013, we updated our estimate of the incurred loss period for certain residential mortgages. This change reflected an analysis of defaulted borrowers and aligned to management's view that incurred but unrealized losses emerge differently during various points of an economic/business cycle.

Allocation of the Allowance for Loan and Lease Losses

The following table presents an allocation of the ALLL by class and the percent of each class of loans and leases to the total loans and leases:

	December 31,									
(dollars in millions)	2016		2015		2014		2013		2012	
Commercial	$458	35%	$376	34%	$388	34%	$361	33%	$379	33%
Commercial real estate	92	10	111	9	61	8	78	8	111	7
Leases	48	3	23	4	23	4	24	5	19	4
Qualitative	65	N/A	86	N/A	72	N/A	35	N/A	—	N/A
Total commercial	663	48	596	47	544	46	498	46	509	44
Residential mortgages	42	14	46	13	63	13	104	11	74	11
Home equity loans	19	2	39	3	50	4	85	5	82	6
Home equity lines of credit	116	13	132	15	152	16	159	18	107	19
Home equity loans serviced by others	9	1	29	1	47	1	85	2	146	2
Home equity lines of credit serviced by others	3	—	3	—	11	1	18	1	32	1
Automobile	110	13	106	14	58	14	23	11	30	10
Student	76	6	96	4	93	2	83	3	75	3
Credit cards	63	1	60	2	68	2	72	2	65	2
Other retail	27	2	28	1	32	1	34	1	46	2
Qualitative	108	N/A	81	N/A	77	N/A	60	N/A	—	N/A
Total retail	573	52	620	53	651	54	723	54	657	56
Unallocated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	89	N/A
Total loans and leases	$1,236	100%	$1,216	100%	$1,195	100%	$1,221	100%	$1,255	100%

The allowance for credit losses totaled $1.3 billion at December 31, 2016 and 2015. Our ALLL was 1.15% of total loans and leases and 118% of nonperforming loans and leases as of December 31, 2016 compared with 1.23% and 115%, respectively, as of December 31, 2015. 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.

Overall credit quality continued to improve reflecting growth in lower risk retail loans and modest increases in commercial categories. Nonperforming loans and leases of $1.0 billion as of December 31, 2016 decreased $15 million from December 31, 2015, reflecting improvements in retail real estate secured categories offset by an increase in commercial nonperforming assets, largely driven by commodities-related businesses. Net charge-offs of $335 million increased $51 million, or 18%, from $284 million in 2015, as a $59 million increase in commercial, largely tied to commodities-related businesses, and a reduction in commercial real estate recoveries more than offset an $8 million decrease in retail. Net charge-offs of 0.32% of average total loans and leases remained relatively stable with 0.30% in 2015. See Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

Risk Elements

The following table presents a summary of nonaccrual, past due and restructured loans and leases by class:

	December 31,				
(in millions)	2016	2015	2014	2013	2012
Nonaccrual loans and leases					
Commercial	$322	$70	$113	$96	$119
Commercial real estate	50	77	50	169	386
Leases	15	—	—	—	1
Total commercial	387	147	163	265	506
Residential mortgages	144	331	345	382	486
Home equity loans	98	135	203	266	298
Home equity lines of credit	243	272	257	333	259
Home equity loans serviced by others	32	38	47	59	92
Home equity lines of credit serviced by others	33	32	25	30	41
Automobile	50	42	21	16	16
Student	38	35	11	3	3
Credit cards	16	16	16	19	20
Other retail	4	3	5	10	9
Total retail	658	904	930	1,118	1,224
Total nonaccrual loans and leases	$1,045	$1,051	$1,093	$1,383	$1,730
Loans and leases that are accruing and 90 days or more delinquent					
Commercial	2	1	1	—	71
Commercial real estate	—	—	—	—	33
Leases	—	—	—	—	—
Total commercial	2	1	1	—	104
Residential mortgages	18	—	—	—	—
Home equity loans	—	—	—	—	—
Home equity lines of credit	—	—	—	—	—
Home equity loans serviced by others	—	—	—	—	—
Home equity lines of credit serviced by others	—	—	—	—	—
Automobile	—	—	—	—	—
Student	5	6	6	31	33
Credit cards	—	—	1	2	2
Other retail	1	2	—	—	—
Total retail	24	8	7	33	35
Total accruing and 90 days or more delinquent	26	9	8	33	139
Total	$1,071	$1,060	$1,101	$1,416	$1,869
Troubled debt restructurings (1)	$633	$909	$955	$777	$704

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

Potential Problem Loans and Leases

At December 31, 2016, we did not identify any potential problem loans or leases within the portfolio that were not already included in "—Risk Elements." Potential problem loans or leases consist of loans and leases where information about a borrower's possible credit problems cause management to have serious doubts as to the ability of such borrowers to comply with the present repayment terms.

Commercial Loan Asset Quality

Our commercial loan and lease portfolio consists of traditional commercial loans, commercial real estate loans and leases. The portfolio is predominantly focused on customers in our footprint and adjacent states in which we have a physical presence where our local delivery model provides for strong client connectivity. Additionally, we also do business in certain specialized industry sectors on a national basis.

For commercial loans and leases, we use regulatory classification ratings to monitor credit quality. Loans with a "pass" rating are those that we believe will be fully repaid in accordance with the contractual loan terms. Commercial loans and leases that are "criticized" are those that have some weakness that indicates an increased probability of future loss. See Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

Nonperforming commercial loans and leases increased $239 million to $387 million as of December 31, 2016 from $148 million as of December 31, 2015, largely reflecting a $248 million increase tied to commodities-related businesses partially offset by a $27 million reduction in commercial real estate. These results also reflect the impact of revised regulatory guidance related to multi-tiered debt structures on the reserve-based lending portion of the oil and gas portfolio. As of December 31, 2016, total commercial nonperforming loans were 0.7% of the commercial loan portfolio compared to 0.3% as of December 31, 2015. Total 2016 commercial loan and lease net charge-offs of $46 million increased from a net recovery of $13 million in 2015, largely reflecting an increase tied to commodities-related businesses and a reduction in commercial real estate recoveries of prior period charge-offs.

Total commercial criticized loans and leases totaled $2.9 billion, or 5.6% of total commercial loans and leases as of December 31, 2016, compared to $2.6 billion, or 5.6%, as of December 31, 2015. Commercial criticized balances of $2.3 billion, or 6.1% of commercial loans, as of December 31, 2016, increased modestly from $2.0 billion, or 6.0%, as of December 31, 2015. Commercial real estate criticized balances of $478 million, or 4.5% of the commercial real estate portfolio, decreased from $521 million, or 5.8%, as of December 31, 2015. Commercial criticized loans to total criticized loans of 78% as of December 31, 2016 compared to 76% as of December 31, 2015. Commercial real estate accounted for 16% of criticized loans as of December 31, 2016 compared to 20% as of December 31, 2015.

Retail Loan Asset Quality

For retail loans, we primarily utilize payment and delinquency status to monitor credit quality. Historical experience indicates that the longer a loan is past due, the greater the likelihood of future credit loss. These credit quality indicators are continually updated and monitored. Our retail loan portfolio remains focused on lending across the New England, Mid-Atlantic and Midwest regions, with continued geographic expansion outside the footprint primarily in the auto finance, student lending and unsecured portfolios. Retail assets increased $3.2 billion to $56.0 billion as of December 31, 2016, a 6.0% increase from December 31, 2015, driven by growth in the student lending, residential mortgage portfolios and other unsecured, offset by continued runoff in home equity.

Nonperforming retail loans as a percentage of total retail loans were 1.2% as of December 31, 2016, a decrease of 50 basis points from December 31, 2015, driven primarily by the third quarter 2016 TDR transaction and the first quarter 2016 reclassification of residential mortgage loans guaranteed by government entities to accruing status in keeping with industry practice. Nonperforming balances at December 31, 2016 also excluded $50 million of government guaranteed loans.

The credit composition of our retail loan portfolio at December 31, 2016 remained favorable and well-positioned across all product lines with an average refreshed FICO score of 759, improving two points from December 31, 2015, as we continue to put high quality assets in our retail portfolio. The real estate secured portfolio CLTV ratio, which is calculated as the mortgage and second lien loan balance divided by the appraised value of the property, was 62% as of December 31, 2016 compared to 64% as of December 31, 2015. Retail asset quality continued to improve with a net charge-off rate (core and non-core) of 0.53% for the year ended December 31, 2016, a decrease of five basis points from the year ended December 31, 2015, driven by broad improvement in the home equity, student and other unsecured retail portfolios.

HELOC Payment Shock

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

Troubled Debt Restructurings

TDR is the classification given to a loan that has been restructured in a manner that grants a concession to a borrower experiencing financial hardship that we would not otherwise make. TDRs typically result from our loss mitigation efforts and are undertaken in order to improve the likelihood of recovery and continuity of the relationship. Our loan modifications are handled on a case-by-case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet our borrower's financial needs. The types of concessions include interest rate reductions, term extensions, principal forgiveness and other modifications to the structure of the loan that fall outside our lending policy. Depending on the specific facts and circumstances of the customer, restructuring can involve loans moving to nonaccrual, remaining on nonaccrual, or remaining on accrual status.

As of December 31, 2016, $799 million of retail loans were classified as retail TDRs, compared with $1.2 billion as of December 31, 2015. The decrease was driven by the impact of the third quarter 2016 sale of $310 million of retail TDRs, including

$255 million of residential mortgages and $55 million of home equity loans. As of December 31, 2016, $233 million of retail TDRs were in nonaccrual status with 55% current on payments compared to $379 million of retail TDRs at December 31, 2015, with 51% current on payments. TDRs generally return to accrual status once repayment capacity and appropriate payment history can be established. TDRs are evaluated for impairment individually. Loans are classified as TDRs until paid off, sold or refinanced at market terms.

For additional information regarding TDRs, see "—Critical Accounting Estimates — Allowance for Credit Losses," Note 1 "Significant Accounting Policies" and Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

The following tables present an aging of our retail TDRs:

	December 31, 2016				
(in millions)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Recorded Investment:					
Residential mortgages	$115	$12	$5	$46	$178
Home equity loans	116	8	3	18	145
Home equity lines of credit	164	7	4	21	196
Home equity loans serviced by others	53	3	1	3	60
Home equity lines of credit serviced by others	6	—	—	3	9
Automobile	17	1	1	—	19
Student	148	3	2	2	155
Credit cards	23	1	1	1	26
Other retail	11	—	—	—	11
Total	$653	$35	$17	$94	$799

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

The following tables present the accrual status of our retail TDRs:

	December 31, 2016		
(in millions)	Accruing	Nonaccruing	Total
Recorded Investment:			
Residential mortgages	$117	$61	$178
Home equity loans	102	43	145
Home equity lines of credit	126	70	196
Home equity loans serviced by others	43	17	60
Home equity lines of credit serviced by others	4	5	9
Automobile	10	9	19
Student	128	27	155
Credit cards	25	1	26
Other retail	11	—	11
Total	$566	$233	$799

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

Impact of Nonperforming Loans and Leases on Interest Income

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

(in millions)	For the Year Ended December 31, 2016
Gross amount of interest income that would have been recorded [1]	$121
Interest income actually recognized	13
Total interest income foregone	$108

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

Cross-Border Outstandings

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

As of December 31, 2016, 2015 and 2014, there were no aggregate cross-border outstandings from borrowers or counterparties in any country that exceeded 1%, or were between 0.75% and 1% of consolidated total assets.

Derivatives

We use pay-fixed swaps to hedge floating rate wholesale funding and to offset duration in fixed-rate assets. Notional balances on wholesale funding hedges totaled $3.0 billion as of December 31, 2016 and $5.0 billion as of December 31, 2015. Pay-fixed rates on the swaps ranged from 0.91% to 1.98% as of December 31, 2016 and 1.96% to 4.30% as of December 31, 2015. As of December 31, 2016, $1.0 billion are forward starting positions which begin accruing interest starting in January 2018. At December 31, 2015 we also had a $500 million hedge of forecasted term debt issuance at a 1.82% pay fixed rate which was unwound in July 2016.

We use receive-fixed swaps to minimize the exposure to variability in the interest cash flows on our floating rate assets, and to hedge market risk on fixed rate capital markets debt issuances. At December 31, 2016 and 2015, the notional amount of receive-fixed swap hedges totaled $10.4 billion and $11.3 billion, respectively. The fixed-rate ranges were 0.88% to 1.84% as of December 31, 2016 and 0.77% to 2.05% as of December 31, 2015. We paid one-month and three-month LIBOR on these swaps.

In December 2016, we unwound $3.0 billion of receive-fixed swaps and $3.0 billion of pay-fixed swaps with offsetting cash flow and risk profiles. The $6.0 billion reduction of swaps will create unused hedge capacity and reduce collateral needs on the cleared portion.

In November 2016, we entered into $2.0 billion of short-term maturity (1.5 to 2.0 years) pay-fixed interest rate swaps to hedge short-term floating rate wholesale funding. We pay fixed at rates ranging from 0.91% to 1.03% and receive one-month LIBOR.

In October 2016, we entered into a $500 million five-year receive-fixed interest rate swap designed to hedge the interest-rate exposure on floating rate commercial loans and modestly reduce longer-term net interest income sensitivity. We receive a fixed rate of 1.10% on the agreement and pay one month LIBOR. Additionally, $500 million in legacy pay-fixed swaps hedging wholesale funding matured during the month.

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

In July 2016, we unwound $1.0 billion in swaps related to a subordinated debt buy back, comprised of a $500 million fair value hedge of the notes bought back, and $500 million hedging the forecast senior debt issuance used to retire the debt.

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

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

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

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

The table below presents our derivative assets and liabilities. For additional information regarding our derivative instruments, see Note 16 "Derivatives" in our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

	December 31, 2016			December 31, 2015		
(dollars in millions)	Notional Amount [1]	Derivative Assets	Derivative Liabilities	Notional Amount [1]	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate contracts	$13,350	$52	$193	$16,750	$96	$50
Derivatives not designated as hedging instruments:						
Interest rate contracts	54,656	557	452	33,719	540	455
Foreign exchange contracts	8,039	134	126	8,366	163	156
Other contracts	1,498	16	7	981	8	5
Total derivatives not designated as hedging instruments		707	585		711	616
Gross derivative fair values		759	778		807	666
Less: Gross amounts offset in the Consolidated Balance Sheets [2]		(106)	(106)		(178)	(178)
Less: Cash collateral applied [2]		(26)	(13)		(4)	(3)
Total net derivative fair values presented in the Consolidated Balance Sheets [3]		$627	$659		$625	$485

[1] The notional or contractual amount of interest rate derivatives and foreign exchange contracts is the amount upon which interest and other payments under the contract are based. For interest rate derivatives, the notional amount is typically not exchanged. Therefore, notional amounts should not be taken as the measure of credit or market risk as they do not measure the true economic risk of these contracts.
[2] Amounts represent the impact of legally enforceable master netting agreements that allow us to settle positive and negative positions.
[3] We also offset assets and liabilities associated with repurchase agreements on our Consolidated Balance Sheets. See Note 3, "Securities," in our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

At December 31, 2016, the overall derivative asset value increased $2 million and the liability balance increased by $174 million from December 31, 2015, primarily due to higher fixed interest rates at December 31, 2016, compared to December 31, 2015.

Deposits

The table below presents the major components of our deposits:

	December 31,			
(dollars in millions)	2016	2015	Change	Percent
Demand	$28,472	$27,649	$823	3%
Checking with interest	20,714	17,921	2,793	16
Regular savings	8,964	8,218	746	9
Money market accounts	38,176	36,727	1,449	4
Term deposits	13,478	12,024	1,454	12
Total deposits	$109,804	$102,539	$7,265	7%

Total deposits as of December 31, 2016, increased $7.3 billion, or 7% to $109.8 billion compared to $102.5 billion and reflected particular strength in checking with interest, term deposits, and money market products.

The following table presents the average balances and average interest rates paid for deposits.

	For the Year Ended December 31,					
(dollars in millions)	2016		2015		2014 [1]	
	Average Balances	Yields/ Rates	Average Balances	Yields/ Rates	Average Balances	Yields/ Rates
Noninterest-bearing demand deposits [2]	$27,634	—	$26,606	—	$25,739	—
Checking with interest	$19,320	0.18%	$16,666	0.11%	$14,507	0.08%
Money market accounts	37,106	0.36	35,401	0.32	31,849	0.23
Regular savings	8,691	0.04	8,057	0.03	7,730	0.03
Term deposits	12,696	0.78	12,424	0.82	10,317	0.65
Total interest-bearing deposits [2]	$77,813	0.35%	$72,548	0.33%	$64,403	0.24%

[1] Excludes deposits held for sale
[2] The aggregate amount of deposits by foreign depositors in domestic offices was approximately $1.4 billion as of December 31, 2016 and $1.1 billion as of December 31, 2015 and 2014.

Borrowed Funds

Short-term borrowed funds

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

	December 31,			
(dollars in millions)	2016	2015	Change	Percent
Federal funds purchased	$533	$—	$533	100%
Securities sold under agreements to repurchase	615	802	(187)	(23)
Other short-term borrowed funds (primarily current portion of FHLB advances)	3,211	2,630	581	22
Total short-term borrowed funds	$4,359	$3,432	$927	27%

Short-term borrowed funds of $4.4 billion as of December 31, 2016, increased $927 million from December 31, 2015, as a $581 million increase in other short-term borrowed funds, which was driven by a $749 million increase in senior debt that now matures in less than one year, and a $533 million increase in Fed funds purchased were partially offset by a $187 million decrease in customer repurchase agreements.

As of December 31, 2016, our total contingent liquidity was $24.0 billion, consisting of $2.2 billion in net cash at the FRB (which is defined as cash less overnight Fed funds purchased), $19.0 billion in unencumbered high-quality liquid assets, and $2.8 billion in unused FHLB borrowing capacity. Asset liquidity, a component of contingent liquidity, consisting of net cash at the FRB and unencumbered high-quality and liquid securities, was $21.2 billion. Additionally, $11.8 billion in secured discount window capacity from the FRBs created total available liquidity of approximately $35.8 billion.

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

	As of and for the Year Ended December 31,		
(dollars in millions)	2016	2015	2014
Weighted-average interest rate at year-end: (1)			
Federal funds purchased and securities sold under agreements to repurchase	0.26%	0.15%	0.14%
Other short-term borrowed funds (primarily current portion of FHLB advances)	0.94	0.44	0.26
Maximum amount outstanding at month-end during the year:			
Federal funds purchased and securities sold under agreements to repurchase (2)	$1,522	$5,375	$7,022
Other short-term borrowed funds (primarily current portion of FHLB advances)	5,461	7,004	7,702
Average amount outstanding during the year:			
Federal funds purchased and securities sold under agreements to repurchase (2)	$947	$3,364	$5,699
Other short-term borrowed funds (primarily current portion of FHLB advances)	3,207	5,865	5,640
Weighted-average interest rate during the year: (1)			
Federal funds purchased and securities sold under agreements to repurchase	0.09%	0.22%	0.12%
Other short-term borrowed funds (primarily current portion of FHLB advances)	0.64	0.28	0.25

(1) Rates exclude certain hedging costs.
(2) Balances are net of certain short-term receivables associated with reverse repurchase agreements.

Long-term borrowed funds

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

	December 31,	
(in millions)	2016	2015
Citizens Financial Group, Inc.:		
4.150% fixed rate subordinated debt, due 2022	$347	$350
5.158% fixed-to-floating rate subordinated debt, (LIBOR + 3.56%) callable, due 2023	333	333
3.750% fixed rate subordinated debt, due 2024	250	250
4.023% fixed rate subordinated debt, due 2024	42	331
4.082% fixed rate subordinated debt, due 2025	—	331
4.350% fixed rate subordinated debt, due 2025	249	250
4.300% fixed rate subordinated debt, due 2025	749	750
2.375% fixed rate senior unsecured debt, due 2021	348	—
Banking Subsidiaries:		
1.600% senior unsecured notes, due 2017	—	749
2.300% senior unsecured notes, due 2018	745	747
2.450% senior unsecured notes, due 2019	747	752
2.500% senior unsecured notes, due 2019	741	—
2.550% senior unsecured notes, due 2021	965	—
Federal Home Loan advances due through 2033	7,264	5,018
Other	10	25
Total long-term borrowed funds	$12,790	$9,886

Note: The December 31, 2016 balances above reflect the impact of unamortized deferred issuance costs and discounts. See Note 12 "Borrowed Funds" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

On March 14, 2016, we issued $750 million of CBNA 2.500% fixed-rate senior notes due in 2019, and on May 13, 2016, we issued $1.0 billion of CBNA 2.550% fixed-rate senior notes due in 2021. On July 28, 2016, we issued $350 million of 2.375% fixed-rate senior notes due in 2021, and used the net proceeds and available cash to repurchase $334 million of 4.082% subordinated notes due 2025 and $166 million of 4.023% subordinated notes due 2024. On March 7, 2016, we repurchased $125 million of our 4.023% subordinated notes due 2024.

Long-term borrowed funds of $12.8 billion as of December 31, 2016 increased $2.9 billion from December 31, 2015, driven by a $2.2 billion increase in FHLB borrowings, $950 million net increase in senior bank debt and a $348 million increase in senior holding company debt, partially offset by a $625 million reduction in subordinated debt.

Quarterly Results of Operations

The following table presents unaudited quarterly Consolidated Statements of Operations data and Consolidated Balance Sheet data as of and for the four quarters of 2016 and 2015, respectively. We have prepared the Consolidated Statement of Operations data and Balance Sheet data on the same basis as our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report and, in the opinion of management, each Consolidated Statement of Operations and Balance Sheet includes all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the results of operations and balance sheet data as of and for these periods. This information should be read in conjunction with our audited Consolidated Financial Statements and the related notes, included in this report.

Supplementary Summary Consolidated Financial and Other Data (unaudited)

	For the Three Months Ended							
(dollars in millions, except per share amounts)	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Operating Data:								
Net interest income	$986	$945	$923	$904	$870	$856	$840	$836
Noninterest income (1)	377	435	355	330	362	353	360	347
Total revenue	1,363	1,380	1,278	1,234	1,232	1,209	1,200	1,183
Provision for credit losses	102	86	90	91	91	76	77	58
Noninterest expense (2) (5) (8)	847	867	827	811	810	798	841	810
Income before income tax expense	414	427	361	332	331	335	282	315
Income tax expense	132	130	118	109	110	115	92	106
Net income (3) (6) (9)	$282	$297	$243	$223	$221	$220	$190	$209
Net income available to common stockholders (3) (6) (9)	$282	$290	$243	$216	$221	$213	$190	$209
Net income per average common share- basic (4) (7) (10)	$0.55	$0.56	$0.46	$0.41	$0.42	$0.40	$0.35	$0.38
Net income per average common share- diluted (4) (7) (10)	$0.55	$0.56	$0.46	$0.41	$0.42	$0.40	$0.35	$0.38
Other Operating Data:								
Return on average common equity (11) (17)	5.70%	5.82%	4.94%	4.45%	4.51%	4.40%	3.94%	4.36%
Return on average tangible common equity (12) (17)	8.43	8.58	7.30	6.61	6.75	6.60	5.90	6.53
Return on average total assets (13) (17)	0.76	0.82	0.69	0.65	0.64	0.65	0.56	0.63
Return on average total tangible assets (14) (17)	0.79	0.86	0.72	0.68	0.67	0.68	0.59	0.67
Efficiency ratio (15) (17)	62.18	62.88	64.71	65.66	65.76	66.02	70.02	68.49
Net interest margin (16) (17)	2.90	2.84	2.84	2.86	2.77	2.76	2.72	2.77
Stock Activity:								
Share Price:								
High	$36.56	$25.11	$24.24	$25.99	$27.17	$28.18	$28.71	$25.84
Low	24.22	18.58	18.34	18.04	22.48	21.14	24.03	22.67
Share Data:								
Cash dividends declared and paid per common share	$0.12	$0.12	$0.12	$0.10	$0.10	$0.10	$0.10	$0.10
Dividend payout ratio	22%	22%	26%	24%	24%	25%	28%	26%

	As of							
(dollars in millions)	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Balance Sheet Data:								
Total assets	$149,520	$147,015	$145,183	$140,077	$138,208	$135,447	$137,251	$136,535
Loans and leases [18]	107,669	105,467	103,551	100,991	99,042	97,431	96,538	94,494
Allowance for loan and lease losses	1,236	1,240	1,246	1,224	1,216	1,201	1,201	1,202
Total securities	25,610	25,704	24,398	24,057	24,075	24,354	25,134	25,121
Goodwill	6,876	6,876	6,876	6,876	6,876	6,876	6,876	6,876
Total liabilities	129,773	126,834	124,957	120,112	118,562	115,847	117,665	116,971
Deposits	109,804	108,327	106,257	102,606	102,539	101,866	100,615	98,990
Federal funds purchased and securities sold under agreements to repurchase	1,148	900	717	714	802	1,293	3,784	4,421
Other short-term borrowed funds	3,211	2,512	2,770	3,300	2,630	5,861	6,762	7,004
Long-term borrowed funds	12,790	11,902	11,810	10,035	9,886	4,153	3,890	3,904
Total stockholders' equity	19,747	20,181	20,226	19,965	19,646	19,600	19,586	19,564
Other Balance Sheet Data:								
Asset Quality Ratios:								
Allowance for loan and lease losses as a percentage of total loans and leases	1.15%	1.18%	1.20%	1.21%	1.23%	1.23%	1.24%	1.27%
Allowance for loan and lease losses as a percentage of nonperforming loans and leases	118	112	119	113	115	116	114	106
Nonperforming loans and leases as a percentage of total loans and leases	0.97	1.05	1.01	1.07	1.07	1.06	1.09	1.20
Capital ratios:[19]								
CET1 capital ratio [20]	11.2	11.3	11.5	11.6	11.7	11.8	11.8	12.2
Tier 1 capital ratio [21]	11.4	11.5	11.7	11.9	12.0	12.0	12.1	12.2
Total capital ratio [22]	14.0	14.2	14.9	15.1	15.3	15.4	15.3	15.5
Tier 1 leverage ratio [23]	9.9	10.1	10.3	10.4	10.5	10.4	10.4	10.5

(1) Third quarter 2016 noninterest income included $67 million of pre-tax notable items consisting of a $72 million gain on mortgage/home equity TDR transaction, partially offset by $5 million related to asset finance repositioning.

(2) Third quarter 2016 noninterest expense included $36 million of pre-tax notable items consisting of $17 million of TOP III efficiency initiatives, $11 million related to asset finance repositioning and $8 million of home equity operational items.

(3) Third quarter 2016 net income included $19 million of after-tax notable items consisting of a $45 million gain on mortgage/home equity TDR transaction, partially offset by $11 million of TOP III efficiency initiatives, $10 million related to asset finance repositioning and $5 million of home equity operational items.

(4) Third quarter 2016 net income per average common share, basic and diluted, included $0.04 related to notable items consisting of $0.09 attributable to the gain on mortgage/home equity TDR transaction, partially offset by a $0.02 impact from TOP III efficiency initiatives, $0.02 impact related to asset finance repositioning and a $0.01 impact from home equity operational items.

(5) Second quarter 2015 noninterest expense included $40 million of pre-tax restructuring charges and special items consisting of $25 million of restructuring charges, $1 million of CCAR and regulatory expenses and $14 million related to separation and rebranding.

(6) Second quarter 2015 net income included $25 million of after-tax restructuring charges and special items consisting of $15 million of restructuring charges, $1 million of CCAR and regulatory expenses and $9 million related to separation and rebranding.

(7) Second quarter 2015 net income per average common share, basic and diluted, included $0.05 attributed to restructuring and special items.

(8) First quarter 2015 noninterest expense included $10 million of pre-tax restructuring charges and special items consisting of $1 million of restructuring charges, $1 million of CCAR and regulatory expenses and $8 million related to separation and rebranding.

(9) First quarter 2015 net income included $6 million of after-tax restructuring charges and special items consisting of $1 million of restructuring charges and $5 million related to separation and rebranding.

(10) First quarter 2015 net income per average common share, basic and diluted, included $0.01 attributed to restructuring and special items.

(11) "Return on average common equity" is defined as net income available to common stockholders divided by average common equity. Average common equity represents average total stockholders' equity less average preferred stock.

(12) "Return on average tangible common equity" is defined as net income (loss) available to common stockholders divided by average common equity excluding average goodwill (net of related deferred tax liability) and average other intangibles. Average common equity represents average total stockholders' equity less average preferred stock.

(13) "Return on average total assets" is defined as net income (loss) divided by average total assets.

(14) "Return on average total tangible assets" is defined as net income (loss) divided by average total assets excluding average goodwill (net of related deferred tax liability) and average other intangibles.

(15) "Efficiency ratio is defined as the ratio of our total noninterest expense to the sum of net interest income and total noninterest income.

(16) "Net interest margin" is defined as net interest income divided by average total interest-earning assets.

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

(18) Excludes loans held for sale of $625 million, $526 million, $850 million, $751 million, $365 million, $420 million, $697 million, and $376 million as of December 31, 2016, September 30, 2016, June 30, 2016, March 31, 2016, December 31, 2015, September 30, 2015, June 30, 2015 and March 31, 2015, respectively.

(19) 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 are prepared using the Basel III Standardized transitional approach.

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

(21) "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.

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

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

Capital

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

The U.S. adoption of the Basel III Standardized approach by all primary regulators became effective for the Parent Company, CBNA and CBPA on January 1, 2015 (subject to a phase-in period for certain provisions). Among other changes, these regulations introduced a new capital conservation buffer ("CCB") on top of the following three minimum risk-based capital ratios: CET1 capital of 4.5%, tier 1 capital of 6.0% and total capital of 8.0%. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will increase by 0.625% on each subsequent January 1, until the buffer reaches its fully phased-in level of 2.5% on January 1, 2019. Banking institutions for which any risk-based capital ratio falls below its effective minimum (required minimum plus the applicable capital conservation buffer) will be subject to constraints on capital distributions, including dividends, repurchases and certain executive compensation, based on the amount of the shortfall.

The table below presents our actual regulatory capital ratios under these Basel III Transitional rules as of December 31, 2016 and 2015, as well as pro-forma Basel III ratios after full phase-in of all requirements by January 1, 2019.

	Transitional Basel III				Pro Forma Basel III Assuming Full Phase-in		
(dollars in millions)	Actual Amount	Actual Ratio	Required Minimum plus Required CCB for Non-Leverage Ratios[6][7]	FDIA Required Well-Capitalized Minimum for Purposes of Prompt Corrective Action[9]	Actual Ratio[1]	Required Minimum plus Required CCB for Non-Leverage Ratios[6][8]	FDIA Required Well-Capitalized Minimum for Purposes of Prompt Corrective Action[9]
December 31, 2016							
Common equity tier 1 capital[2]	$13,822	11.2%	5.1%	6.5%	11.1 %	7.0 %	6.5 %
Tier 1 capital[3]	14,069	11.4	6.6	8.0	11.3	8.5	8.0
Total capital[4]	17,347	14.0	8.6	10.0	14.0	10.5	10.0
Tier 1 leverage[5]	14,069	9.9	4.0	5.0	9.9	4.0	5.0
Risk-weighted assets	123,857						
Quarterly adjusted average assets	141,677						
December 31, 2015							
Common equity tier 1 capital[2]	$13,389	11.7%	4.5%	6.5%	11.7 %	7.0 %	6.5 %
Tier 1 capital[3]	13,636	12.0	6.0	8.0	11.9	8.5	8.0
Total capital[4]	17,505	15.3	8.0	10.0	15.3	10.5	10.0
Tier 1 leverage[5]	13,636	10.5	4.0	5.0	10.5	4.0	5.0
Risk-weighted assets	114,084						
Quarterly adjusted average assets	130,455						

[1] Fully phased-in regulatory capital ratios are Key Performance Metrics. For more information on Key Performance Metrics, see "—Principal Components of Operations and Key Performance Metrics Used By Management."
[2] "Common equity tier 1 capital ratio" is CET1 capital divided by total risk-weighted assets as defined under Basel III Standardized approach.
[3] "Tier 1 capital ratio" is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under Basel III Standardized approach.
[4] "Total capital ratio" is total capital divided by total risk-weighted assets as defined under Basel III Standardized approach.
[5] "Tier 1 leverage ratio" is tier 1 capital divided by quarterly average total assets as defined under Basel III Standardized approach.
[6] Required "Minimum Capital ratio" for 2016 are: Common equity tier 1 capital of 4.5%; Tier 1 capital of 6.0%; Total capital of 8.0%; and Tier 1 leverage of 4.0%.
[7] "Minimum Capital ratio" for 2016 includes capital conservation buffer for Transitional Basel III of 0.625%; N/A to Tier 1 leverage.
[8] "Minimum Capital ratio" for 2016 includes capital conservation buffer for Pro Forma Basel III of 2.5%; N/A to Tier 1 leverage.
[9] Presented for informational purposes. Prompt corrective action provisions apply only to insured depository institutions-in our case CBNA and CBPA.

At December 31, 2016, our CET1 capital, tier 1 capital and total capital ratios were 11.2%, 11.4% and 14.0%, respectively compared with 11.7%, 12.0% and 15.3% as of December 31, 2015. The decrease in the respective ratios was largely driven by our 2016 Capital Plan actions which included common dividends of $241 million, preferred dividends of $14 million and the repurchase of $430 million of common shares and $625 million of subordinated debt. At December 31, 2016, our CET1 capital, tier 1 capital and total capital ratios were 4.2%, 2.9% and 3.5%, respectively, above their regulatory minimums plus the fully phased-in capital conservation buffer. Based on both current and fully phased-in Basel III requirements, all ratios remained well above Basel III minima.

Standardized Approach

The Parent Company, CBNA and CBPA calculate regulatory ratios using the Basel III Standardized approach, as defined by U.S. regulators, for determining risk-weighted assets. Under this approach no distinction is made for variations in credit quality for corporate exposures. Additionally, the economic benefit of collateral is restricted to a limited list of eligible securities and cash. At December 31, 2016, we estimate our CET1 capital, CET1 capital ratio and total risk-weighted assets using the Basel III Standardized approach, on a fully phased-in basis, to be $13.8 billion, 11.1% and $124.1 billion, respectively. Our estimates may be refined over time because of further rulemaking or clarification by U.S. banking regulators or as our understanding and interpretation of rules evolve.

The following table provides a reconciliation of regulatory ratios and ratio components using the Basel III Standardized Transitional rules and Basel III Standardized estimates on a fully-phased in basis for common equity tier 1 capital, total capital and risk-weighted assets.

	December 31,	
(dollars in millions)	2016	2015
Common equity tier 1 capital	$13,822	$13,389
Impact of intangibles at 100%	—	(2)
Fully phased-in common equity tier 1 capital(1)	$13,822	$13,387
Total capital	$17,347	$17,505
Impact of intangibles at 100%	—	(2)
Fully phased-in total capital(1)	$17,347	$17,503
Risk-weighted assets	$123,857	$114,084
Impact of intangibles - 100% capital deduction	—	(2)
Impact of mortgage servicing assets at 250% risk weight	244	246
Fully phased-in risk-weighted assets(1)	$124,101	$114,328
Transitional common equity tier 1 capital ratio(2)	11.2%	11.7%
Fully phased-in common equity tier 1 capital ratio(1)(2)	11.1	11.7
Transitional total capital ratio(3)	14.0	15.3
Fully phased-in total capital ratio(1)(3)	14.0	15.3

(1) Fully phased-in regulatory capital ratios are Key Performance Metrics. For more information on Key Performance Metrics, see "—Principal Components of Operations and Key Performance Metrics Used By Management."
(2) "Common equity tier 1 capital ratio" is CET1 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.

Regulatory Capital Ratios and Capital Composition

CET1 capital under Basel III Standardized Transitional rules totaled $13.8 billion at December 31, 2016, and increased $433 million from $13.4 billion at December 31, 2015, as growth in net income and amortization of deferred tax related to goodwill was partially offset by the impact of share repurchases and dividend payments. Tier 1 capital at December 31, 2016 totaled $14.1 billion, reflecting a $433 million increase from $13.6 billion at December 31, 2015, driven by the changes in CET 1 capital noted above. At December 31, 2016 and 2015, we had $247 million of 5.500% Fixed-to-Floating Non-Cumulative Perpetual Preferred Stock outstanding which qualified as additional tier 1 capital. Total capital of $17.3 billion at December 31, 2016, decreased $158 million from December 31, 2015 as the benefit of net income growth and amortization of deferred tax related to goodwill was more than offset by the impact of the redemption of subordinated debt, share repurchases and dividend payments.

Risk-weighted assets based on Basel III Standardized Transitional rules at December 31, 2016 totaled $123.9 billion, up $9.8 billion from December 31, 2015. The primary drivers for this change were growth in commercial, commercial real estate and student loan portfolios.

As of December 31, 2016, the tier 1 leverage ratio decreased 52 basis points to 9.9% from 10.5% as of December 31, 2015. This decline reflected the net impact of an $11.2 billion increase in adjusted quarterly average total assets, which drove an 84 basis point decline in the ratio, and the previously noted increase in tier 1 capital, which added 32 basis points to the ratio.

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

	Transitional Basel III	
	December 31,	
(dollars in millions)	2016	2015
Total common stockholders' equity	$19,499	$19,399
Exclusions[(1)]:		
Net unrealized (gains) losses recorded in accumulated other comprehensive income, net of tax:		
Debt and marketable equity securities available for sale	186	28
Derivatives	88	(10)
Unamortized net periodic benefit costs	394	369
Deductions:		
Goodwill	(6,876)	(6,876)
Deferred tax liability associated with goodwill	532	480
Other intangible assets	(1)	(1)
Total Common Equity Tier 1 Capital	13,822	13,389
Qualifying preferred stock	247	247
Total Tier 1 Capital	14,069	13,636
Qualifying long-term debt securities as tier 2	1,970	2,595
Allowance for loan and lease losses	1,236	1,216
Allowance for credit losses for off-balance sheet exposure	72	58
Total capital	$17,347	$17,505

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

Capital Adequacy Process

Our assessment of capital adequacy begins with our risk appetite and risk management framework. This framework provides for the identification, measurement and management of material risks. Capital requirements are determined for actual and forecasted risk portfolios using applicable regulatory capital methodologies. The assessment also considers the possible impacts of approved and proposed regulatory changes to future periods. Key analytical frameworks, which enable assessment of capital adequacy versus unexpected loss, supplement our base case forecast. These supplemental frameworks include integrated stress testing, as well as an internal capital adequacy requirement that builds on internally assessed economic capital requirements. A robust governance framework supports our capital planning process. This process includes capital management policies and procedures that document capital adequacy metrics and limits, as well as our comprehensive capital contingency plan and the active engagement of both the legal-entity boards and senior management in oversight and decision-making.

Forward-looking assessments of capital adequacy for us and for our banking subsidiaries feed development of capital plans that are submitted to the FRBG and to bank regulators. We prepare these plans in full compliance with the FRBG's Capital Plan Rule and we participate annually in the FRBG's CCAR review process. In addition to the stress test requirements under CCAR, we also participate in semiannual stress tests required by the Dodd-Frank Act.

All distributions proposed under our 2016 Capital Plan were subject to consideration and approval by our 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. All of the following capital actions were completed during the year ended December 31, 2016. These were part of the 2016 Capital Plan to which the Federal Reserve indicated no objection.

Capital Transactions

- Declared quarterly common stock dividends of $0.10 per share for the first quarter of 2016 and $0.12 per share for each of the second, third and fourth quarters of 2016, aggregating to common stock dividend payments of $241 million;
- Declared semi-annual dividends of $27.50 per share on the 5.500% fixed-to-floating rate non-cumulative perpetual Series A Preferred Stock, aggregating to preferred stock dividend payments of $7 million on April 6, 2016 and October 6, 2016;
- Repurchased $625 million in qualifying subordinated notes; and

- Repurchased 17.3 million shares of common stock at an average price of $24.81 per share, reducing regulatory capital by $430 million.

At December 31, 2016, all regulatory ratios remained well above their respective fully phased-in Basel III minimum, plus the capital conservation buffer for the risk-based ratios. Fully phased-in regulatory capital ratios are Key Performance Metrics. For more information on the computation of these Key Performance Metrics, see "—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures,"

Banking Subsidiaries' Capital

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

	Transitional Basel III			
	December 31,			
	2016		2015	
(dollars in millions)	Amount	Ratio	Amount	Ratio
Citizens Bank, N.A.				
Common equity tier 1 capital [(1)]	$11,248	11.2%	$10,754	11.7%
Tier 1 capital[(2)]	11,248	11.2	10,754	11.7
Total capital[(3)]	13,443	13.4	13,132	14.3
Tier 1 leverage[(4)]	11,248	10.3	10,754	10.7
Risk-weighted assets	100,491		91,625	
Quarterly adjusted average assets	109,530		100,504	
Citizens Bank of Pennsylvania				
Common equity tier 1 capital [(1)]	$3,094	12.7%	$3,017	13.0%
Tier 1 capital[(2)]	3,094	12.7	3,017	13.0
Total capital[(3)]	3,333	13.6	3,559	15.4
Tier 1 leverage[(4)]	3,094	8.8	3,017	9.1
Risk-weighted assets	24,426		23,179	
Quarterly adjusted average assets	35,057		33,045	

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

CBNA CET1 capital under Basel III Standardized Transitional rules totaled $11.2 billion at December 31, 2016, up $494 million from $10.8 billion at December 31, 2015 reflecting the impact of net income growth partially offset by dividend payments. At December 31, 2016, CBNA held minimal additional tier 1 capital. Total capital was $13.4 billion at December 31, 2016, an increase of $311 million from December 31, 2015, driven primarily by the increase in CET1 capital net of the redemption of subordinated debt.

CBNA risk-weighted assets based on Basel III Standardized Transitional rules at December 31, 2016 of $100.5 billion, increased $8.9 billion from December 31, 2015 driven by growth in commercial loans and commitments, commercial real estate, student, residential mortgage and unsecured retail loans.

As of December 31, 2016, CBNA's tier 1 leverage ratio decreased approximately 43 basis points to 10.3% from 10.7% as of December 31, 2015, driven by a $9.0 billion increase in adjusted quarterly average total assets that drove a 90 basis point decline in the ratio, partially offset by a 47 basis point increase for higher CET1 capital described above.

CBPA CET1 capital under Basel III Standardized Transitional rules totaled $3.1 billion at December 31, 2016, and increased $77 million from $3.0 billion at December 31, 2015 as the impact of net income growth and amortization of deferred tax related to goodwill was partially offset by the impact of dividend payments. At December 31, 2016, there was no additional tier 1 capital. CBPA total capital of $3.3 billion at December 31, 2016 decreased $226 million from December 31, 2015 driven by the redemption of subordinated debt partially offset by an increase in CET1 capital.

CBPA risk-weighted assets based on Basel III Standardized Transitional rules at December 31, 2016 of $24.4 billion, increased $1.2 billion from December 31, 2015 largely reflecting the impact of growth in student, commercial, commercial real estate and mortgage backed securities partially offset by a reduction in residential mortgage and auto.

As of December 31, 2016, the CBPA tier 1 leverage ratio decreased 30 basis points to 8.8% from 9.1% as of December 31, 2015, driven by an increase in adjusted quarterly average total assets of $2.0 billion resulting in a 53 basis point decline in the ratio, partially offset by a 23 basis point increase resulting from higher CET1 capital described above.

Liquidity

Liquidity is defined as our ability to meet our cash-flow and collateral obligations in a timely manner, at a reasonable cost. An institution must maintain current liquidity to meet its expected daily and forecasted cash-flow requirements, as well as contingent liquidity to meet unexpected (stress scenario) funding requirements. As noted earlier, reflecting the importance of meeting all unexpected and stress-scenario funding requirements, we identify and manage contingent liquidity (consisting of excess cash balances at the FRB, unencumbered high-quality and liquid securities, and unused FHLB borrowing capacity). Separately, we also identify and manage asset liquidity as a subset of contingent liquidity (consisting of excess cash balances at the FRB and unencumbered high-quality securities). At December 31, 2016, our net overnight position (which is defined as cash balance held at the FRB less any overnight borrowings) totaled $2.2 billion, we held $19.0 billion in unencumbered high-quality liquid assets, and maintained undrawn FHLB borrowing capacity of $2.8 billion. This resulted in total contingent liquidity of $24.0 billion and total asset liquidity of $21.2 billion.

We manage liquidity at the consolidated enterprise level and at the legal entity level, including at the Parent Company, CBNA and CBPA.

CFG Liquidity

Our primary sources of cash are (i) dividends and interest received from our banking subsidiaries as a result of investing in bank equity and subordinated debt and (ii) externally issued senior and subordinated debt. Our uses of liquidity include the following: (i) routine cash flow requirements as a bank holding company, including periodic share repurchases and payments of dividends, interest and expenses; (ii) needs of subsidiaries, including our banking subsidiaries, for additional equity and, as required, their needs for debt financing; and (iii) extraordinary requirements for cash.

In 2016, we utilized $350 million in proceeds from the issuance of senior notes and $275 million in excess cash to repurchase $334 million of our 4.082% subordinated notes, due 2025, and $291 million of our 4.023% subordinated notes, due 2024. In 2016, we paid $430 million to repurchase 17,332,684 common shares at an average price of $24.81; $405 million was recorded in treasury stock and $25 million was recorded in additional paid in capital. The repurchased shares are held in treasury stock.

Our cash and cash equivalents represent a source of liquidity that can be used to meet various needs and totaled $551 million as of December 31, 2016 compared with $400 million as of December 31, 2015.

Our liquidity risk is low for the following reasons: (i) we have no material non-banking subsidiaries, and our banking subsidiaries are self-funding; (ii) the capital structures of our banking subsidiaries are similar to our capital structure. As of December 31, 2016, our double leverage ratio (the combined equity of our subsidiaries divided by our equity) was 102.1%; and, (iii) our other cash flow requirements, such as operating expenses, are relatively small.

Banking Subsidiaries' Liquidity

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

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

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

Liquidity Risk

We define liquidity risk as the risk that an entity will be unable to meet its payment obligations in a timely manner. We manage liquidity risk at the consolidated enterprise level and at the legal entity level, including at the Parent Company, CBNA and CBPA. Liquidity risk can arise due to contingent liquidity risk and/or funding liquidity risk.

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

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

Factors Affecting Liquidity

Given the composition of their assets and borrowing sources, contingent liquidity risk at both CBNA and CBPA would be materially affected by such events as deterioration of financing markets for high-quality securities (e.g., mortgage-backed securities and other instruments issued by the GNMA, FNMA and the FHLMC), by any inability of the FHLBs to provide collateralized advances and/or by a refusal of the FRB to act as lender of last resort in systemic stress.

Similarly, given the structure of their balance sheets, the funding liquidity risk of CBNA and CBPA would be materially affected by an adverse idiosyncratic event (e.g., a major loss, causing a perceived or actual deterioration in its financial condition), an adverse systemic event (e.g., default or bankruptcy of a significant capital markets participant), or a combination of both (e.g., the financial crisis of 2008-2010). However, during the financial crisis, our banking subsidiaries reduced their dependence on unsecured wholesale funding to virtually zero. Consequently, and despite ongoing exposure to a variety of idiosyncratic and systemic events, we view our contingent liquidity risk and our funding liquidity risk to be relatively modest.

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

	December 31, 2016		
	Moody's	Standard and Poor's	Fitch
Citizens Financial Group, Inc.:			
Long-term issuer	NR	BBB+	BBB+
Short-term issuer	NR	A-2	F2
Subordinated debt	NR	BBB	BBB
Preferred Stock	NR	BB+	BB-
Citizens Bank, N.A.:			
Long-term issuer	Baa1	A-	BBB+
Short-term issuer	P-2	A-2	F2
Long-term deposits	A1	NR	A-
Short-term deposits	P-1	NR	F2
Citizens Bank of Pennsylvania:			
Long-term issuer	Baa1	A-	BBB+
Short-term issuer	P-2	A-2	F2
Long-term deposits	A1	NR	A-
Short-term deposits	P-1	NR	F2

NR = Not rated

Changes in our public credit ratings could affect both the cost and availability of our wholesale funding. As a result and in order to maintain a conservative funding profile, our banking subsidiaries continue to minimize reliance on unsecured wholesale funding. At December 31, 2016, the majority of wholesale funding consisted of secured borrowings from the FHLBs collateralized by high-quality residential mortgages.

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

The LCR was developed to ensure banks have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. In September 2014, the U.S. federal banking regulators published the final rule to implement the LCR. This rule also introduced a modified version of the LCR in the United States, which generally applies to BHCs not active internationally (institutions with less than $10 billion of on-balance sheet foreign exposure), with total assets of greater than $50 billion but less than $250 billion. Under this definition, we are designated as a modified LCR financial institution. As compared to the Basel Committee's version of the LCR, the version of the LCR issued by the U.S. federal banking regulators includes a narrower definition of high-quality liquid assets, different prescribed cash inflow and outflow assumptions for certain types of instruments and transactions and a shorter phase-in schedule that began on January 1, 2015 and ends on January 1, 2017. Notably, as a modified LCR financial institution, we were required to be 90% compliant beginning in January 2016, and 100% compliant beginning in January 2017. Achieving sustainable LCR compliance may require changes in the size and/or composition of our investment portfolio, the configuration of our discretionary wholesale funding portfolio, and our average cash position. We remain fully compliant with the LCR as of December 31, 2016.

The U.S. federal bank regulatory agencies have issued a notice of proposed rulemaking to implement the NSFR, along with a modified version with similar parameters as the LCR, that would designate us as a modified NSFR financial institution. The NSFR is one of the two Basel III-based liquidity measures, distinctly separate from the LCR, and is designed to promote medium- and long-term stable funding of the assets and off-balance sheet activities of banks and bank holding companies over a one-year time horizon. Generally consistent with the Basel Committee's framework, under the proposed rule banking organizations would be required to hold an amount of available stable funding ("ASF") over a one-year time horizon that equals or exceeds the institution's amount of required stable funding ("RSF"), with the ASF representing the numerator and the RSF representing the denominator of the NSFR. The banking organizations subject to the modified NSFR would multiply the RSF amount by 70%, such that the RSF amount required for these companies would be required to maintain ASF of at least 70% of its RSF. Generally, these modified NSFR companies are defined as institutions with total assets of greater than $50 billion but less than $250 billion, and less than $10 billion of on-balance sheet foreign exposure. The proposed rule includes detailed descriptions of the items that would comprise ASF and RSF and standardized factors that would apply to ASF and RSF items, and would require any institution whose applicable modified NSFR falls under 100% to notify the appropriate federal regulator and develop a remediation plan.

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

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

Liquidity Risk Management and Governance

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

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

We seek to accomplish this mission by funding loans with stable deposits; by prudently controlling dependence on wholesale funding, particularly short-term unsecured funding; and by maintaining ample available liquidity, including a contingent liquidity buffer of unencumbered high-quality loans and securities. As of December 31, 2016:

- Core deposits continued to be our primary source of funding and our consolidated year-end loan-to-deposit ratio was 98.6%;
- Our net overnight position (which is defined as cash balance held at the FRB less any overnight borrowings) totaled $2.2 billion;
- Contingent liquidity was $24.0 billion; consisting of our net overnight position (defined above) of $2.2 billion; unencumbered high-quality liquid assets of $19.0 billion; and unused FHLB capacity of $2.8 billion. Asset liquidity (a component of contingent liquidity) was $21.2 billion consisting of our net overnight position of $2.2 billion and unencumbered high-quality and liquid securities of $19.0 billion; and

- Available discount window capacity, defined as available total borrowing capacity from the FRB based on identified collateral, is secured by non-mortgage commercial and consumer loans and totaled $11.8 billion. Use of this borrowing capacity would likely be considered only during exigent circumstances.

The Funding and Liquidity Unit monitors a variety of liquidity and funding metrics and early warning indicators, including specific risk thresholds limits. These monitoring tools are broadly classified as follows:

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

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

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

Cash flows from operating activities contributed $1.5 billion in 2016. Net cash used by investing activities was $11.3 billion, primarily reflecting a net increase in loans and leases of $9.1 billion and securities available for sale portfolio purchases of $7.7 billion, partially offset by proceeds from maturities, paydowns and sales of securities available for sale of $5.8 billion. Cash provided by financing activities was $10.5 billion, driven by proceeds from issuance of long-term borrowed funds of $15.1 billion and a net increase in deposits of $7.3 billion, partially offset by repayments of long-term borrowed funds of $8.4 billion and a net decrease in other short-term borrowed funds of $3.2 billion. The $15.1 billion proceeds included $1.3 billion from issuances of medium term debt and $13.8 billion in FHLB advances. The $8.4 billion of repayments includes $7.8 billion in repayments of FHLB advances and $625 million paid to repurchase subordinated debt. These activities represented a cumulative increase in cash and cash equivalents of $619 million, which, when added to the cash and cash equivalents balance of $3.1 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of $3.7 billion as of December 31, 2016.

Cash flows from operating activities contributed $1.2 billion in 2015. Net cash used by investing activities was $5.9 billion, primarily reflecting net securities available for sale portfolio purchases of $6.8 billion and a net increase in loans and leases of $6.0 billion, partially offset by proceeds from maturities, paydowns and sales of securities available for sale of $7.3 billion. Cash provided by financing activities was $4.5 billion, driven by a net increase in deposits of $6.8 billion and proceeds from long-term borrowed funds of $6.8 billion, partially offset by a decrease in federal funds purchased and securities sold under agreement to repurchase of $3.5 billion, a decrease in other short-term borrowed funds of $4.4 billion and repayments of long-term borrowed funds of $766 million. These activities represented a cumulative decrease in cash and cash equivalents of $191 million, which, when added to the cash and cash equivalents balance of $3.3 billion at the beginning of the year, resulted in an ending balance of cash and cash equivalents of $3.1 billion as of December 31, 2015.

Contractual Obligations

The following table presents our outstanding contractual obligations as of December 31, 2016:

(in millions)	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Deposits with a stated maturity of less than one year (1) (2)	$96,326	$96,326	$—	$—	$—
Term deposits (1)	13,478	11,402	1,642	428	6
Long-term borrowed funds (1) (3)	12,790	—	9,489	1,320	1,981
Contractual interest payments (4)	1,046	234	345	223	244
Operating lease obligations	809	182	279	184	164
Purchase obligations (5)	607	309	154	67	77
Total outstanding contractual obligations	$125,056	$108,453	$11,909	$2,222	$2,472

(1) Deposits and borrowed funds exclude interest.
(2) Includes demand, checking with interest, regular savings, and money market account deposits. See "—Deposits" for further information.
(3) Includes obligations under capital leases.
(4) Includes accrued interest and future contractual interest obligations related to long term borrowed funds.
(5) Includes purchase obligations for goods and services covered by non-cancelable contracts and contracts including cancellation fees.

Off-Balance Sheet Arrangements

The following table presents our outstanding off-balance sheet arrangements. See Note 17 "Commitments and Contingencies" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report:

	December 31,			
(dollars in millions)	2016	2015	Change	Percent
Commitment amount:				
Undrawn commitments to extend credit	$60,872	$56,524	$4,348	8%
Financial standby letters of credit	1,892	2,010	(118)	(6)
Performance letters of credit	40	42	(2)	(5)
Commercial letters of credit	43	87	(44)	(51)
Marketing rights	44	47	(3)	(6)
Risk participation agreements	19	26	(7)	(27)
Residential mortgage loans sold with recourse	8	10	(2)	(20)
Total	$62,918	$58,746	$4,172	7%

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

Critical Accounting Estimates

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

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

See Note 1 "Significant Accounting Policies" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report, for further discussion of our significant accounting policies.

Allowance for Credit Losses

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

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

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

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

For most non-impaired retail loan portfolio types, the ALLL is based upon the incurred loss model utilizing the PD, LGD and exposure at default on an individual loan basis. When developing these factors, we may consider the loan product and collateral type, delinquency status, LTV ratio, lien position, borrower's credit, time outstanding, geographic location and incurred loss period. Incurred loss periods are reviewed and updated at least annually, and potentially more frequently when economic situations change rapidly, as they tend to fluctuate with economic cycles. Incurred loss periods are generally longer in good economic times and shorter in bad times. Certain retail portfolios, including SBO home equity loans, student loans, and credit card receivables utilize roll rate models to estimate the ALLL. For the portfolios measured using the incurred loss model, roll rate models are also used to support management overlays if deemed necessary.

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

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

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

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

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

Changes in the levels of estimated losses can significantly affect management's determination of an appropriate ALLL. For consumer loans, losses are affected by such factors as loss severity, collateral values, economic conditions, and other factors. A 1% and 5% increase in the estimated loss rate for consumer loans at December 31, 2016 would have increased the ALLL by $6 million and $28 million, respectively. The ALLL for our Commercial Banking segment is sensitive to assigned credit risk ratings and inherent loss rates. If 10% and 20% of the December 31, 2016 year end loan balances (including unfunded commitments) within each risk rating category of our Commercial Banking segment had experienced downgrades of two risk categories, the ALLL would have increased by $47 million and $93 million, respectively.

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

For additional information regarding the ALLL and reserve for unfunded lending commitments, see Note 1 "Significant Accounting Policies" and Note 5 "Allowance for Credit Losses, Nonperforming Assets and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

Fair Value

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

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

- Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar instruments; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by market data for substantially the full term of the asset or liability; and
- Level 3. Unobservable inputs that are supported by little or no market information and that are significant to the fair value measurement.

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

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

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

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

The fair value of assets under operating leases is determined using collateral specific pricing digests, external appraisals, broker opinions, recent sales data from industry equipment dealers, and the discounted cash flows derived from the underlying lease agreement. As market data for similar assets and lease agreements is available and used in the valuation, these assets are classified as Level 2.

For additional information regarding our fair value measurements, see Note 1 "Significant Accounting Policies," Note 3 "Securities," Note 10 "Mortgage Banking," Note 16 "Derivatives," and Note 19 "Fair Value Measurements" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

Goodwill

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

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

The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangible assets. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. The impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

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

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

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

We also corroborate the fair value of our reporting units determined by the discounted cash flow method by adding the aggregated sum of these fair value measurements to the fair value of our other segment operations and comparing this total to our observed market capitalization. As part of this process, we analyze the implied control premium to evaluate its reasonableness. Both positive and negative facts and circumstances are considered when completing this analysis, including company and market-specific factors, observed transaction data and any additional external evidence supporting the implied control premium. Since none of our reporting units are publicly traded, individual reporting unit fair value determinations cannot be directly correlated to our common stock price. Although we believe it is reasonable to conclude that market capitalization could be an indicator of fair value over time, it may not reflect the aggregate fair value of our individual reporting units at a specific point in time. The sum of the fair values of the reporting units at October 31, 2016 exceeded the overall market capitalization of CFG as of October 31, 2016.

We performed an annual test for impairment of goodwill for both reporting units as of October 31, 2016 and assessed the indicators of goodwill impairment through December 31, 2016. As of the testing date, the percentage by which the fair value of our Consumer Banking reporting unit exceeded its carrying value was 19%, and the percentage by which the fair value of our Commercial Banking reporting unit exceeded its carrying value was 12%. Therefore, the results of this annual test indicated that the goodwill of each reporting unit was not impaired as of the testing date.

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

For additional information regarding our goodwill impairment testing, see Note 1 "Significant Accounting Policies," and Note 9 "Goodwill" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

Income Taxes

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

We are subject to income tax in the United States and multiple state and local jurisdictions. The tax laws and regulations in each jurisdiction may be interpreted differently in certain situations, which could result in a range of outcomes. Thus, we are required to exercise judgment regarding the application of these tax laws and regulations. We evaluate and recognize tax liabilities related to any tax uncertainties. Due to the complexity of some of these uncertainties, the ultimate resolution may differ from the current estimate of tax liabilities or refunds.

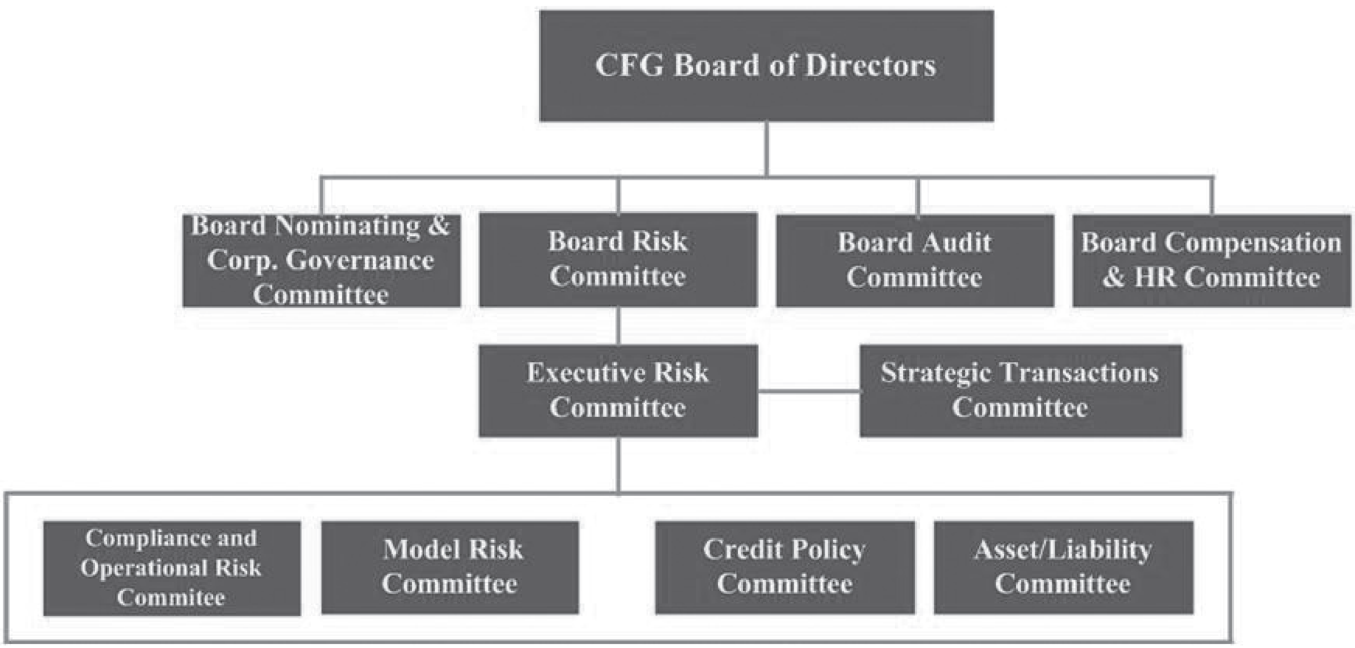
Our estimate of accrued income taxes, deferred income taxes and income tax expense can also change in any period as a result of new legislative or judicial guidance impacting tax positions, as well as changes in income tax rates.

For additional information regarding income taxes, see Note 1 "Significant Accounting Policies," and Note 15 "Income Taxes" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report.

Risk Governance

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

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



Chief Risk Officer

The CRO directs our overall risk management function overseeing the credit, interest rate , market, liquidity, operational, compliance, strategic and reputational risk management. The CRO reports to our CEO and to the Board Risk Committee.

Risk Framework

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

First Line of Defense

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

Second Line of Defense

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

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

Third Line of Defense

Our Internal Audit function is the third line of defense providing independent assurance with a view of the effectiveness of Citizens' internal controls, governance practices, and culture so that risk is managed appropriately for the size, complexity, and risk profile of the organization. Internal Audit has complete and unrestricted access to any and all Bank records, physical properties and personnel. Internal Audit issues a report following each internal review and provides an audit opinion to Citizens' Audit Committees on a quarterly basis.

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

Risk Appetite

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

The principal non-market risks to which we are subject are: credit risk, operational risk, liquidity risk, strategic risk and reputational risk. We are also subject to market risks. Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and/or other relevant market rates or prices. Modest market risk arises from trading activities that serve customer needs, including hedging of interest rate and foreign exchange risk. As described below, more material market risk arises from our non-trading banking activities, such as loan origination and deposit gathering. We have established enterprise-wide policies and methodologies to identify, measure, monitor and report market risk. We actively manage both trading and non-trading market risks. We are also subject to liquidity risk, discussed under "—Liquidity."

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

Credit Risk

Overview

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

Objective

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

Organizational Structure

Management and oversight of credit risk is the responsibility of both the line of business and the second line of defense. The second line of defense, the independent Credit Risk Function, is led by the Chief Credit Officer who oversees all of our credit risk. The CCO reports to the Chief Risk Officer. The CCO, acting in a manner consistent with Board policies, has responsibility for, among other things, the governance process around policies, procedures, risk acceptance criteria, credit risk appetite, limits and authority delegation. The CCO and his team also have responsibility for credit approvals for larger and higher risk transactions and oversight of line of business credit risk activities. Reporting to the CCO are the heads of the second line of defense credit functions specializing in: Consumer Banking; Commercial Banking; Citizens Restructuring Management; Portfolio and Corporate Reporting; ALLL Analytics; and Credit Policy and Administration. Each team under these leaders is composed of highly experienced credit professionals.

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

Governance

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

Key Management Processes

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

Consumer

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

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

To ensure proper oversight of the underwriting teams, lending authority is granted by the second line of defense credit risk function to each underwriter. The amount of delegated authority depends on the experience of the individual. We periodically evaluate the performance of each underwriter and annually reauthorize their delegated authority. Only senior members of the second line of defense credit risk team are authorized to approve significant exceptions to credit policies. It is not uncommon to make exceptions to established policies when compensating factors are present. There are exception limits which, when reached, trigger a comprehensive analysis.

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

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

Commercial

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

Commercial credit risk management begins with defined credit products and policies.

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

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

The maximum level of credit exposure to individual credit borrowers is limited by policy guidelines based on the perceived risk of each borrower or related group of borrowers. Concentration risk is managed through limits on industry (sector), loan type (asset class), and loan quality factors. We focus predominantly on extending credit to commercial customers with existing or expandable relationships within our primary markets (for this purpose defined as our 11 state footprint plus contiguous states), although we do engage in lending opportunities outside our primary markets if we believe that the associated risks are acceptable and aligned with strategic initiatives.

Apart from Industrials and CRE (which together make up 30% of the commercial outstandings as of December 31, 2016), there are no material sector concentrations. As of December 31, 2016, our CRE outstandings amounted to 10% of total loans and leases. The Industrial sector includes basic C&I lending focused on general manufacturing. The sector is diversified and not managed as a specialized vertical. Our customers are local to our market and present no significant concentration.

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

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

Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and/or other relevant market rates or prices. Modest market risk arises from trading activities that serve customer needs, including hedging of interest rate and foreign exchange risk. As described below, more material market risk arises from our non-trading banking activities, such as loan origination and deposit-gathering. We have established enterprise-wide policies and methodologies to identify, measure, monitor and report market risk. We actively manage both trading and non-trading market risks.

Non-Trading Risk

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

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

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

A primary source of our structural interest rate risk relates to faster repricing of floating rate loans relative to the retail deposit funding. This source of asset sensitivity is concentrated at the short end of the yield curve. For the past seven years with the Federal Funds rate near zero, this risk has been asymmetrical with significantly more upside benefit than potential exposure. With interest rates starting to rise, the risk position will become more symmetrical over time as rates can decline further before becoming floored at zero.

The secondary source of our interest rate risk is driven by longer term rates comprising the rollover or reinvestment risk on fixed rate loans as well as the prepayment risk on mortgage related loans and securities funded by non-rate sensitive deposits and equity.

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

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

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

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

The table below reports net interest income exposures against a variety of interest rate scenarios. Exposures are measured as a percentage change in net interest income over the next year due to either instantaneous, or gradual parallel +/- 200 basis point moves in the market implied forward yield curve. The net interest income simulation analyses do not include possible future actions that management might undertake to mitigate this risk. The current limit is a decrease in net interest income of 13% related to an instantaneous +/- 200 basis point move. As the table illustrates, our balance sheet is asset-sensitive: net interest income would benefit from an increase in interest rates. Exposure to a decline in interest rates is well within limit. It should be noted that the magnitude of any possible decline in interest rates is constrained by the low absolute starting levels of rates. While an instantaneous and severe shift in interest rates was used in this analysis, we believe that any actual shift in interest rates would likely be more gradual and would therefore have a more modest impact.

The table below presents the sensitivity of net interest income to various parallel yield curve shifts from the market implied forward yield curve:

	Estimated % Change in Net Interest Income over 12 Months	
	December 31,	
Basis points	2016	2015
Instantaneous Change in Interest Rates		
+200	11.3%	10.6%
+100	5.6	5.8
-100	(6.9)	(5.8)
-200	(9.8)	(6.4)
Gradual Change in Interest Rates		
+200	5.9	6.1
+100	3.1	3.2
-100	(3.0)	(3.1)
-200	(6.2)	(4.6)

Asset sensitivity was 5.9% at December 31, 2016, down modestly from 6.1% at December 31, 2015. The core asset sensitivity is the result of a faster repricing of the loan book relative to the deposits. The asset sensitive risk position is managed within our risk limits through occasional adjustments to securities investments, interest rate swaps and mix of funding.

We use a valuation measure of exposure to structural interest rate risk, Economic Value of Equity ("EVE"), as a supplement to net interest income simulations. EVE complements net interest income simulation analysis as it estimates risk exposure over a long-term horizon. EVE measures the extent to which the economic value of assets, liabilities and off-balance sheet instruments may change in response to fluctuation in interest rates. This analysis is highly dependent upon assumptions applied to assets and liabilities with non-contractual maturities. The change in value is expressed as a percentage of regulatory capital. The current risk limit is set at a decrease of 20% of regulatory capital given an instantaneous +/- 200 basis point change in interest rates. We are operating within that limit as of December 31, 2016.

We also had market risk associated with the value of the mortgage servicing right assets, which are impacted by the level of interest rates. As of December 31, 2016 and 2015, our mortgage servicing rights had a book value of $162 million and $164 million, respectively, and were carried at the lower of cost or fair value. As of December 31, 2016 and 2015, the fair value of the mortgage servicing rights was $182 million and $178 million, respectively. Given low interest rates over recent years, there is a valuation allowance of $5 million and $9 million on the asset as of December 31, 2016 and 2015, respectively. Depending on the interest rate environment, hedges may be used to stabilize the market value of the mortgage servicing right asset.

Trading Risk

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

Client facilitation activities consist primarily of interest rate derivatives and foreign exchange contracts where we enter into offsetting trades with a separate counterparty or exchange to manage our market risk exposure. In addition to the aforementioned activities, we operate a secondary loan trading desk with the objective to meet secondary liquidity needs of our issuing clients' transactions and investor clients. We do not engage in any trading activities with the intent to benefit from short term price differences.

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

Market Risk Governance

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

Market Risk Measurement

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

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

Value-at-Risk Overview

The market risk measurement model is based on historical simulation. The VaR measure estimates the extent of any fair value losses on trading positions that may occur due to broad market movements (General VaR) such as changes in the level of interest rates, foreign exchange rates, equity prices and commodity prices. It is calculated on the basis that current positions remain broadly unaltered over the course of a given holding period. It is assumed that markets are sufficiently liquid to allow the business to close its positions, if required, within this holding period. VaR's benefit is that it captures the historic correlations of a portfolio. Based on the composition of our "covered positions," we also use a standardized add-on approach for the loan trading desk's Specific Risk capital which estimates the extent of any losses that may occur from factors other than broad market movements. In addition, for our secondary traded loans we calculate the VaR on the general interest rate risk embedded within the loans using a standalone model that replicates the general VaR methodology (the related capital is reflected on the "de minimis" line in the following section). The General VaR approach is expressed in terms of a confidence level over the past 500 trading days. The internal VaR measure (used as the basis of the main VaR trading limits) is a 99% confidence level with a one day holding period, meaning that a loss greater than the VaR is expected to occur, on average, on only one day in 100 trading days (i.e., 1% of the time). Theoretically, there should be a loss event greater than VaR two to three times per year. The regulatory measure of VaR is done at a 99% confidence level with a 10-day holding period. The historical market data applied to calculate the VaR is updated on a ten business day lag. Refer to "Market Risk Regulatory Capital" below for details of our ten-day VaR metrics for the quarters ended December 31, 2016 and 2015, including high, low, average and period end Value-at-Risk for interest rate and foreign exchange rate risks, as well as total VaR.

Market Risk Regulatory Capital

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

(in millions)	For the Quarter Ended December 31, 2016				For the Quarter Ended December 31, 2015			
Market Risk Category	**Period End**	**Average**	**High**	**Low**	**Period End**	**Average**	**High**	**Low**
Interest Rate	$1	$—	$1	$—	$—	$—	$—	$—
Foreign Exchange Currency Rate	—	—	—	—	—	—	—	—
Diversification Benefit	—	—	NM(1)	NM(1)	—	—	NM(1)	NM(1)
General VaR	1	—	1	—	—	—	—	—
Specific Risk VaR	—	—	—	—	—	—	—	—
Total VaR	$1	$—	$—	$—	$—	$—	$—	$—
Stressed General VaR	$3	$3	$4	$1	$2	$2	$2	$1
Stressed Specific Risk VaR	—	—	—	—	—	—	—	—
Total Stressed VaR	$3	$3	$4	$1	$2	$2	$2	$1
Market Risk Regulatory Capital	$9				$7			
Specific Risk Not Modeled Add-on	5				5			
de Minimis Exposure Add-on	16				15			
Total Market Risk Regulatory Capital	$30				$27			
Market Risk-Weighted Assets	$381				$333			

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

Stressed VaR

SVaR is an extension of VaR, but uses a longer historical look back horizon that is fixed from January 3, 2005. This is done not only to identify headline risks from more volatile periods, but also to provide a counter balance to VaR which may be low during periods of low volatility. The holding period for profit and loss determination is ten days. SVaR is also a component of market risk regulatory capital. SVaR for us is calculated daily under its own dynamic window regime. In a dynamic window regime, values of the ten-day, 99% VaR are calculated over all possible 260-day periods that can be obtained from the complete historical data set. Refer to "Market Risk Regulatory Capital" above for details of SVaR metrics, including high, low, average and period end SVaR for the combined portfolio.

Sensitivity Analysis

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

Stress Testing

Conducting a stress test of a portfolio consists of running risk models with the inclusion of key variables that simulate various historical or hypothetical scenarios. For historical stress tests, profit and loss results are simulated for selected time periods corresponding to the most volatile underlying returns while hypothetical stress tests aim to consider concentration risk, illiquidity under stressed market conditions and risk arising from the bank's trading activities that may not be fully captured by its other models. Hypothetical scenarios also assume that the market moves happen simultaneously and that no repositioning or hedging activity takes place to mitigate losses as events unfold. We generate stress tests of our trading positions on a daily basis. For example, we currently include a stress test that simulates a Lehman-type crisis scenario by taking the worst 20-trading day peak to trough moves for the various risk factors that go into VaR from that period, and assumes they occurred simultaneously.

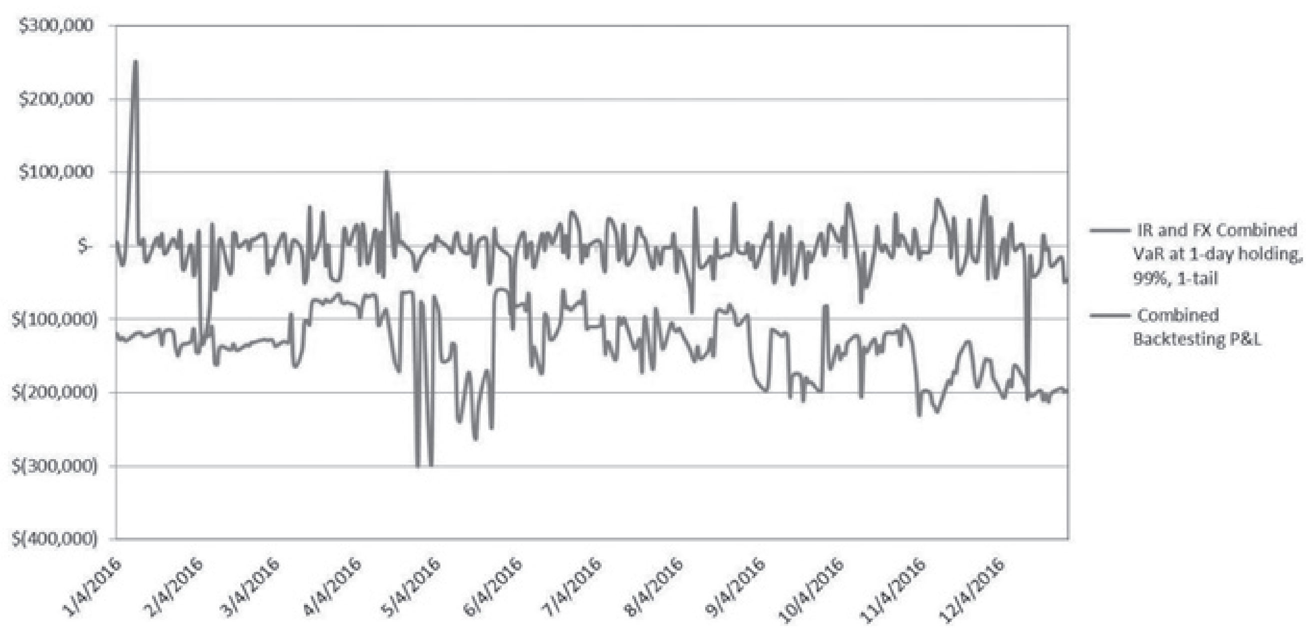
VaR Model Review and Validation

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

VaR Backtesting

Backtesting is one form of validation of the VaR model. The Market Risk Rule requires a comparison of our internal VaR measure to the actual net trading revenue (excluding fees, commissions, reserves, intra-day trading and net interest income) for each day over the preceding year (the most recent 250 business days). Any observed loss in excess of the VaR number is taken as an exception. The level of exceptions determines the multiplication factor used to derive the VaR and SVaR-based capital requirement for regulatory reporting purposes. We perform sub-portfolio backtesting as required under the Market Risk Rule, and as approved by our banking regulators, for interest rate and foreign exchange positions. The following graph shows our daily net trading revenue and total internal, modeled VaR for the quarters ended December 31, 2016, September 30, 2016, June 30, 2016 and March 31, 2016.

Daily VaR Backtesting: Sub-portfolio Level Backtesting



ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk are presented in the "Market Risk" section of Part II, Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Company's system of internal control over financial reporting is designed, under the supervision of the Chief Executive Officer and the Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2016 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (2013)*. Based on that assessment, management concluded that, as of December 31, 2016, the Company's internal control over financial reporting is effective.

The Company's internal control over financial reporting as of December 31, 2016 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their accompanying report, appearing on page 119, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors and Stockholders of
Citizens Financial Group, Inc.
Providence, Rhode Island

We have audited the accompanying consolidated balance sheets of Citizens Financial Group, Inc. and its subsidiaries (the "Company"), as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company, at December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 24, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Stockholders of
Citizens Financial Group, Inc.
Providence, Rhode Island

We have audited the internal control over financial reporting of Citizens Financial Group, Inc. and its subsidiaries (the "Company"), as of December 31, 2016, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the financial statements as of and for the year ended December 31, 2016 of the Company and our report dated February 24, 2017 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 24, 2017

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)	December 31, 2016	December 31, 2015
ASSETS:		
Cash and due from banks	$955	$1,099
Interest-bearing cash and due from banks	2,749	1,986
Interest-bearing deposits in banks	439	356
Securities available for sale, at fair value (including $256 and $4,283 pledged to creditors, respectively) (a)	19,501	17,884
Securities held to maturity (including $0 and $135 pledged to creditors, respectively, and fair value of $5,058 and $5,297, respectively) (a)	5,071	5,258
Other investment securities, at fair value	96	70
Other investment securities, at cost	942	863
Loans held for sale, at fair value	583	325
Other loans held for sale	42	40
Loans and leases	107,669	99,042
Less: Allowance for loan and lease losses	1,236	1,216
Net loans and leases	106,433	97,826
Derivative assets	627	625
Premises and equipment, net	601	595
Bank-owned life insurance	1,612	1,564
Goodwill	6,876	6,876
Other assets	2,993	2,841
TOTAL ASSETS	$149,520	$138,208
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$28,472	$27,649
Interest-bearing	81,332	74,890
Total deposits	109,804	102,539
Federal funds purchased and securities sold under agreements to repurchase	1,148	802
Other short-term borrowed funds	3,211	2,630
Derivative liabilities	659	485
Deferred taxes, net	714	730
Long-term borrowed funds	12,790	9,886
Other liabilities	1,447	1,490
TOTAL LIABILITIES	$129,773	$118,562
Contingencies (refer to Note 17)		
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 December 31, 2016 and 2015	$247	$247
Common stock:		
$0.01 par value, 1,000,000,000 shares authorized, 564,630,542 shares issued and 511,954,871 shares outstanding at December 31, 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	18,722	18,725
Retained earnings	2,703	1,913
Treasury stock, at cost, 52,675,671 and 35,342,987 shares at December 31, 2016 and 2015, respectively	(1,263)	(858)
Accumulated other comprehensive loss	(668)	(387)
TOTAL STOCKHOLDERS' EQUITY	$19,747	$19,646
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$149,520	$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 Consolidated Financial Statements are an integral part of these statements.

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except share and per-share data)	Year Ended December 31, 2016	2015	2014
INTEREST INCOME:			
Interest and fees on loans and leases	$3,653	$3,211	$3,012
Interest and fees on loans held for sale, at fair value	15	10	5
Interest and fees on other loans held for sale	6	7	23
Investment securities	584	621	619
Interest-bearing deposits in banks	8	5	5
Total interest income	4,266	3,854	3,664
INTEREST EXPENSE:			
Deposits	270	237	156
Deposits held for sale	—	—	4
Federal funds purchased and securities sold under agreements to repurchase	2	16	32
Other short-term borrowed funds	40	67	89
Long-term borrowed funds	196	132	82
Total interest expense	508	452	363
Net interest income	3,758	3,402	3,301
Provision for credit losses	369	302	319
Net interest income after provision for credit losses	3,389	3,100	2,982
NONINTEREST INCOME:			
Service charges and fees	599	575	574
Card fees	203	232	233
Trust and investment services fees	146	157	158
Mortgage banking fees	112	101	71
Capital markets fees	125	88	91
Foreign exchange and letter of credit fees	90	90	95
Bank-owned life insurance income	54	56	49
Securities gains, net	16	29	28
Net securities impairment losses recognized in earnings	(12)	(7)	(10)
Other income	164	101	389
Total noninterest income	1,497	1,422	1,678
NONINTEREST EXPENSE:			
Salaries and employee benefits	1,709	1,636	1,678
Outside services	377	371	420
Occupancy	307	319	326
Equipment expense	263	257	250
Amortization of software	170	146	145
Other operating expense	526	530	573
Total noninterest expense	3,352	3,259	3,392
Income before income tax expense	1,534	1,263	1,268
Income tax expense	489	423	403
NET INCOME	$1,045	$840	$865
Net income available to common stockholders	$1,031	$833	$865
Weighted-average common shares outstanding:			
Basic	522,093,545	535,599,731	556,674,146
Diluted	523,930,718	538,220,898	557,724,936
Per common share information:			
Basic earnings	$1.97	$1.55	$1.55
Diluted earnings	1.97	1.55	1.55
Dividends declared and paid	0.46	0.40	1.43

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
(in millions)	2016	2015	2014
Net income	$1,045	$840	$865
Other comprehensive (loss) income:			
Net unrealized derivative instrument (losses) gains arising during the periods, net of income taxes of ($38), $57, and $122, respectively	(62)	93	212
Reclassification adjustment for net derivative (gains) losses included in net income, net of income taxes of ($22), ($9), and $10, respectively	(36)	(14)	17
Net unrealized securities available for sale (losses) gains arising during the periods, net of income taxes of ($82), ($38), and $116, respectively	(139)	(66)	198
Other-than-temporary impairment not recognized in earnings on securities, net of income taxes of ($10), ($14), and ($13), respectively	(17)	(22)	(22)
Reclassification of net securities gains to net income, net of income taxes of ($2), ($8), and ($7), respectively	(2)	(14)	(11)
Employee benefit plans:			
Actuarial loss, net of income taxes of ($20), ($3), and ($92), respectively	(34)	(3)	(148)
Net prior service credit, net of income taxes of $0, $0 and $3, respectively	—	—	4
Amortization of actuarial loss, net of income taxes of $6, $3, and $3, respectively	10	12	7
Amortization of net prior service credit, net of income taxes $0, $0 and $0, respectively	(1)	(1)	(1)
Divestitures effective September 1, 2014, net of income taxes of $0, $0 and $12, respectively	—	—	20
Total other comprehensive (loss) income, net of income taxes	(281)	(15)	276
Total comprehensive income	$764	$825	$1,141

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in millions)	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount					
Balance at January 1, 2014	—	$—	560	$6	$18,603	$1,235	$—	($648)	$19,196
Dividends to common stockholders	—	—	—	—	—	(806)	—	—	(806)
Treasury stock purchased	—	—	(14)	—	—	—	(334)	—	(334)
Share-based compensation plans	—	—	—	—	71	—	(2)	—	69
Employee stock purchase plan shares purchased	—	—	—	—	2	—	—	—	2
Total comprehensive income:									
Net income	—	—	—	—	—	865	—	—	865
Other comprehensive income	—	—	—	—	—	—	—	276	276
Total comprehensive income	—	—	—	—	—	865	—	276	1,141
Balance at December 31, 2014	—	$—	546	$6	$18,676	$1,294	($336)	($372)	$19,268
Dividends to common stockholders	—	—	—	—	—	(214)	—	—	(214)
Dividend to preferred stockholders	—	—	—	—	—	(7)	—	—	(7)
Issuance of preferred stock	—	247	—	—	—	—	—	—	247
Treasury stock purchased	—	—	(20)	—	—	—	(500)	—	(500)
Share-based compensation plans	—	—	2	—	40	—	(22)	—	18
Employee stock purchase plan shares purchased	—	—	—	—	9	—	—	—	9
Total comprehensive income:									
Net income	—	—	—	—	—	840	—	—	840
Other comprehensive loss	—	—	—	—	—	—	—	(15)	(15)
Total comprehensive income	—	—	—	—	—	840	—	(15)	825
Balance at December 31, 2015	—	$247	528	$6	$18,725	$1,913	($858)	($387)	$19,646
Dividends to common stockholders	—	—	—	—	—	(241)	—	—	(241)
Dividends to preferred stockholders	—	—	—	—	—	(14)	—	—	(14)
Treasury stock purchased	—	—	(17)	—	(25)	—	(405)	—	(430)
Share-based compensation plans	—	—	1	—	12	—	—	—	12
Employee stock purchase plan shares purchased	—	—	—	—	10	—	—	—	10
Total comprehensive income:									
Net income	—	—	—	—	—	1,045	—	—	1,045
Other comprehensive loss	—	—	—	—	—	—		(281)	(281)
Total comprehensive income	—	—	—	—	—	1,045	—	(281)	764
Balance at December 31, 2016	—	$247	512	$6	$18,722	$2,703	($1,263)	($668)	$19,747

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(in millions)	2016	2015	2014
OPERATING ACTIVITIES			
Net income	$1,045	$840	$865
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	369	302	319
Originations of mortgage loans held for sale	(2,829)	(2,363)	(1,615)
Proceeds from sales of mortgage loans held for sale	2,652	2,381	1,578
Purchases of commercial loans held for sale	(1,355)	(1,176)	(312)
Proceeds from sales of commercial loans held for sale	1,335	1,158	269
Amortization of terminated cash flow hedges	(8)	17	46
Depreciation, amortization and accretion	523	471	386
Mortgage servicing rights valuation recovery	(4)	(9)	(5)
Securities impairment	12	7	10
Deferred income taxes	153	249	141
Share-based compensation	23	24	53
Loss on disposal/impairment of premises and equipment	—	—	27
Loss on sale of other branch assets held for sale	—	—	9
Gain on sales of:			
Debt securities	(16)	(29)	(28)
Marketable equity securities available for sale	(3)	(3)	—
Premises and equipment	(2)	(9)	—
Extinguishment of debt	—	(3)	—
Other loans held for sale	(72)	—	(11)
Deposits held for sale	—	—	(286)
Increase in other assets	(274)	(467)	(295)
(Decrease) increase in other liabilities	(59)	(161)	239
Net cash provided by operating activities	1,490	1,229	1,390
INVESTING ACTIVITIES			
Investment securities:			
Purchases of securities available for sale	(7,664)	(6,783)	(8,315)
Proceeds from maturities and paydowns of securities available for sale	3,785	3,420	2,999
Proceeds from sales of securities available for sale	1,966	3,916	3,325
Purchases of securities held to maturity	(523)	(932)	(1,174)
Proceeds from maturities and paydowns of securities held to maturity	720	761	362
Proceeds from sales of securities held to maturity	—	72	—
Purchases of other investment securities, at fair value	(246)	(157)	—
Proceeds from sales of other investment securities, at fair value	220	120	—
Purchases of other investment securities, at cost	(166)	(91)	(84)
Proceeds from sales of other investment securities, at cost	87	95	146
Net (increase) decrease in interest-bearing deposits in banks	(83)	14	(137)
Net increase in loans and leases	(9,074)	(6,019)	(6,900)
Net increase in bank-owned life insurance	(48)	(37)	(188)
Premises and equipment:			
Purchases	(138)	(121)	(141)
Proceeds from sales	3	15	3
Capitalization of software	(165)	(178)	(170)
Net cash used in investing activities	(11,326)	(5,905)	(10,274)

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Year Ended December 31,		
(in millions)	2016	2015	2014
FINANCING ACTIVITIES			
Net increase in deposits	7,265	6,832	3,813
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	346	(3,474)	(515)
Net (decrease) increase in other short-term borrowed funds	(3,186)	(4,383)	4,002
Proceeds from issuance of long-term borrowed funds	15,144	6,750	3,249
Repayments of long-term borrowed funds	(8,429)	(766)	(6)
Treasury stock purchased	(430)	(500)	(334)
Net proceeds from issuance of preferred stock	—	247	—
Dividends declared and paid to common stockholders	(241)	(214)	(806)
Dividends declared and paid to preferred stockholders	(14)	(7)	—
Net cash provided by financing activities	10,455	4,485	9,403
Increase (decrease) in cash and cash equivalents	619	(191)	519
Cash and cash equivalents at beginning of period	3,085	3,276	2,757
Cash and cash equivalents at end of period	$3,704	$3,085	$3,276
Supplemental disclosures:			
Interest paid	$505	$454	$338
Income taxes paid	94	157	391
Non-cash items:			
Loans securitized and transferred to securities available for sale	$68	$3	$18
Income tax withholding on stock purchased for share based compensation	—	22	2
Stock purchased for share-based compensation plans	12	40	71
Stock purchased for Employee Stock Purchase Plan	10	9	2

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Citizens Financial Group, Inc. conform to GAAP. The Company's principal business activity is banking, conducted through its subsidiaries Citizens Bank, N.A. and Citizens Bank of Pennsylvania.

The Company's significant accounting policies are summarized as follows:

Basis of Presentation

The Consolidated Financial Statements include the accounts of the Company and subsidiaries in which the Company has a controlling financial interest. All intercompany transactions and balances have been eliminated. The Company has evaluated its unconsolidated entities and does not believe that any entity in which it has an interest, but does not currently consolidate, meets the requirements to be consolidated as a variable interest entity.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses, evaluation and measurement of impairment of goodwill, evaluation of unrealized losses on securities for other-than-temporary impairment, accounting for income taxes, the valuation of AFS and HTM securities, and derivatives.

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.

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash and cash equivalents have original maturities of three months or less and include cash and due from banks and interest-bearing cash and due from banks, primarily at the FRB.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks are carried at cost and include deposits that mature within one year.

Securities

Investments include debt and marketable equity securities and other investment securities. The Company classifies debt securities as AFS, HTM, or trading based on management's intent to hold to maturity at the time of purchase, and marketable equity securities as AFS or trading.

Securities that 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 considered in managing the Company's asset/liability strategy are classified as AFS and reported at fair value, with unrealized gains and losses reported in OCI as a separate component of stockholders' equity, net of taxes. Gains and losses on the sales of securities are recognized in noninterest income and are computed using the specific identification method.

Premiums and discounts on debt securities are amortized or accreted using the effective interest method over the estimated lives of the individual securities. The Company uses actual prepayment experience and estimates of future prepayments to determine the constant effective yield necessary to apply the effective interest method of income recognition. Estimates of future prepayments are based on the underlying collateral characteristics of each security and are derived from market sources. Judgment is involved in making determinations about prepayment expectations and in changing those expectations in response to changes in interest rates and macroeconomic conditions. The amortization of premiums and discounts associated with mortgage-backed securities may be significantly impacted by changes in prepayment assumptions.

The Company reviews its AFS securities for other-than-temporary impairment on a quarterly basis or more frequently if a potential loss triggering event occurs. The initial indicator of other-than-temporary impairment for both debt and equity securities is a decline in fair value below its recorded investment amount, as well as the severity and duration of the decline. For a security of which there has been a decline in fair value below the cost basis, the Company recognizes other-than-temporary impairment if (1) management has the intent to sell the security, (2) it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, or (3) the Company does not expect to recover the entire cost basis of the security.

Estimating the recovery of the amortized cost basis of a debt security is based upon an assessment of the cash flows expected to be collected. If the present value of cash flows expected to be collected, discounted at the security's effective yield, is less than amortized cost, other-than-temporary impairment is considered to have occurred.

If the Company intends to sell the impaired security, or if it is more likely than not it will be required to sell the security before recovery, the impairment loss recognized in current period earnings equals the difference between the amortized cost basis and the fair value of the security. If the Company does not intend to sell the impaired security, and it is not likely that the Company will be required to sell the impaired security, the other-than-temporary impairment write-down is separated into an amount representing the credit loss, which is recognized in current period earnings and the amount related to all other factors, which is recognized in OCI.

Debt securities for which the Company has the ability and intent to hold to maturity are classified as HTM. The securities are reported at cost and adjusted for amortization of premiums and accretion of discount. Interest income is recorded on the accrual basis adjusted for the amortization of premium and the accretion of discount. The Company recognizes other-than-temporary impairment when there is a decline in fair value and it does not expect to recover the entire amortized cost basis of the debt security. The amortized cost is written-down to fair value with the credit loss component recognized in current period earnings and remaining component recognized in OCI. Transfers of debt securities to the HTM classification are recognized at fair value at the date of transfer. Unrealized gains or losses from the transfer of AFS securities are retained in OCI and are amortized into earnings over the remaining life of the security using the effective interest method.

Securities that are classified as trading are bought and held principally for the purpose of selling them in the near term and are carried at fair value, with changes in fair value recognized in earnings. When applicable, realized and unrealized gains and losses on such assets are reported in noninterest income in the Consolidated Statements of Operations.

Other investment securities are primarily composed of FHLB stock and FRB stock (which are carried at cost) and money market mutual fund investments held by the Company's broker-dealer (which are carried at fair value, with changes in fair value recognized in noninterest income). Other investment securities that are carried at cost are reviewed at least annually for impairment, with valuation adjustments recognized in noninterest income.

Loans and Leases

Loans are reported at the amount of their outstanding principal, net of charge-offs, unearned income, deferred loan origination fees and costs, and unamortized premiums or discounts on purchased loans. Deferred loan origination fees and costs and purchase premiums and discounts are amortized as an adjustment of yield over the life of the loan, using the effective 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. Direct financing lease receivables are reported at the aggregate of minimum lease payments receivable plus the estimated residual value of the leased property, less unearned and deferred income, including unamortized investment credits. Leveraged leases, which are a form of direct financing leases, are recorded net of related non-recourse debt. Lease residual values are reviewed at least annually for other-than-temporary impairment, with valuation adjustments recognized currently against other income for direct financing and leveraged leases. Unearned income is recognized as a constant percentage of outstanding lease financing balances over the lease terms in interest income.

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.

Loans are classified upon origination or acquisition as either held-for-investment or held-for-sale. This classification is based on management's initial intent and ability to hold the loans to maturity. Loans held for sale are carried at the lower of cost or fair value, with any write-downs or subsequent recoveries charged to other income. The Company accounts for certain loans held for sale, including those loans associated with our mortgage banking business and secondary loan trading desk, under the fair value option at fair value.

Allowance for Credit Losses

Management's estimate of probable losses in the Company's loan and lease portfolios is recorded in the ALLL and the reserve for unfunded lending commitments. The Company evaluates the adequacy of the ALLL by performing reviews of certain individual loans and leases, analyzing changes in the composition, size and delinquency of the portfolio, reviewing previous loss experience and considering current and anticipated economic factors. The ALLL is established in accordance with the Company's credit reserve policies, as approved by the Audit Committee of the Board of Directors. The Chief Financial Officer and Chief Risk Officer review the adequacy of the ALLL each quarter, together with risk management. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for credit losses. The ALLL is maintained at a level that management considers reflective of probable losses, and is established through charges to earnings in the form of a provision for credit losses. The ALLL may be adjusted to reflect the Company's current assessment of various qualitative risks, factors and events that may not be measured in the statistical analysis. Such factors include trends in economic conditions, loan growth, back testing results, credit underwriting policy exceptions, regulatory and audit findings, and peer comparisons. Amounts determined to be uncollectible are deducted from the ALLL and subsequent recoveries, if any, are added to the ALLL. While management uses available information to estimate loan and lease losses, future additions to the ALLL may be necessary based on changes in economic conditions.

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

For non-impaired retail loans, the ALLL is based upon an incurred loss model utilizing the probability of default, loss given default and exposure at default on an individual loan basis. When developing these factors, the Company may consider the loan product and collateral type, delinquency status, LTV ratio, lien position, borrower's credit, time outstanding, geographic location and incurred loss period. Certain retail portfolios, including SBO home equity loans, student loans and commercial credit card receivables utilize roll rate models to estimate the ALLL. For the portfolios measured using the incurred loss model, roll rate models are also run as challenger models and can be used to support management overlays if deemed necessary.

For nonaccruing commercial and commercial real estate loans with an outstanding balance of $3 million or greater and for all commercial and commercial real estate TDRs (regardless of size), the Company conducts further analysis to determine the probable amount of loss and establishes a specific allowance for the loan, if appropriate. The Company estimates the impairment amount by comparing the loan's carrying amount to the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan's observable market price. For collateral-dependent impaired commercial and commercial real estate loans, the excess of the Company's recorded investment in the loan over the fair value of the collateral, less cost to sell, is charged off to the ALLL.

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

In addition to the ALLL, the Company also estimates probable credit losses associated with off balance sheet financial instruments such as standby letters of credit, financial guarantees and binding unfunded loan commitments. Off balance sheet financial instruments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk rating scale. These risk classifications, in conjunction with historical loss experience, economic conditions and performance trends within specific portfolio segments, result in the estimate of the reserve for unfunded lending commitments.

The ALLL and the reserve for unfunded lending commitments are reported on the Consolidated Balance Sheets in the allowance for loan and lease losses and in other liabilities, respectively. Provision for credit losses related to the loans and leases portfolio and the unfunded lending commitments are reported in the Consolidated Statements of Operations as provision for credit losses.

Nonperforming Loans and Leases

Nonperforming loans and leases are those on which accrual of interest has been suspended. Loans (other than certain retail loans insured by U.S. government agencies) are placed on nonaccrual status and considered nonperforming when full payment of principle and interest is in doubt, unless the loan is both well secured and in the process of collection.

When the Company places a loan on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income and amortization of any net deferred fees is suspended. Interest collections on nonaccruing loans and leases for which the ultimate collectability of principal is uncertain are generally applied to first reduce the carrying value of the loan. Otherwise, interest income may be recognized to the extent of the cash received. A loan may be returned to accrual status if (1) principal and interest payments have been brought current, and the Company expects repayment of the remaining contractual principal and interest, (2) the loan or lease has otherwise become well-secured and in the process of collection, or (3) the borrower has been making regularly scheduled payments in full for the prior six months and the Company is reasonably assured that the loan or lease will be brought fully current within a reasonable period.

Commercial loans, commercial real estate loans, and leases are generally placed on nonaccrual status when contractually past due 90 days or more, or earlier if management believes that the probability of collection is insufficient to warrant further accrual. Some of these loans and leases may remain on accrual status when contractually past due 90 days or more if management considers the loan collectible.

Residential mortgages are generally placed on nonaccrual status when past due 120 days, or sooner if determined to be collateral-dependent, unless repayment of the loan is insured by the Federal Housing Administration. Credit card balances are placed on nonaccrual status when past due 90 days or more and are restored to accruing status if they subsequently become less than 90 days past due. All other retail loans are generally placed on nonaccrual status when past due 90 days or more, or earlier if management believes that the probability of collection is insufficient to warrant further accrual. Loans less than 90 days past due may be placed on nonaccrual status upon the death of the borrower, surrender or repossession of collateral, fraud or bankruptcy.

Certain TDRs that are current in payment status are classified as nonaccrual in accordance with regulatory guidance. Income on these loans is generally recognized on a cash basis if management believes that the remaining book value of the loan is realizable. Nonaccruing TDRs that meet the guidelines above for accrual status can be returned to accruing if supported by a well documented evaluation of the borrowers' financial condition, and if they have been current for at least six months.

Loan Charge-Offs

Commercial loans are charged off when it is highly certain that a loss has been realized, including situations where a loan is determined to be both impaired and collateral-dependent. The determination of whether to recognize a charge-off involves many factors, including the prioritization of the Company's claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower's equity or the loan collateral.

Retail loans are generally fully charged-off or written down to the net realizable value of the underlying collateral, with an offset to the ALLL, upon reaching specified stages of delinquency in accordance with standards established by the Federal Financial Institutions Examination Council ("FFIEC"). Residential real estate loans, credit card loans and unsecured open end loans are generally charged off in the month in which the account becomes 180 days past due. Auto loans, student loans and unsecured closed end loans are generally charged off in the month in which the account becomes 120 days past due. Certain retail loans will be charged off earlier than the FFIEC standards in the following circumstances:

- A charge-off is recognized when a loan is modified in a TDR if the loan is determined to be collateral-dependent. A loan is considered to be collateral-dependent when repayment of the loan is expected to be provided solely by the underlying collateral, rather than by cash flows from the borrower's operations, income or other resources.
- Loans to borrowers who have experienced an event (e.g. bankruptcy) that suggests a loss is either known or highly certain are subject to accelerated charge-off standards. Residential real estate and auto loans are charged down to the net realizable value when the loan becomes 60 days past due, or sooner if the loan is determined to be collateral-dependent. Credit card loans are fully charged off within 60 days of receiving notification of the bankruptcy filing or other event. Student loans are generally charged off when the loan becomes 60 days past due after receiving notification of a bankruptcy.
- Auto loans are written down to net realizable value upon repossession of the collateral.

Impaired Loans

A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all of the contractual interest and principal payments as scheduled in the loan agreement. This evaluation is generally based on delinquency information, an assessment of the borrower's financial condition and the adequacy of collateral, if any. Impaired loans include nonaccruing larger balance (greater than $3 million carrying value), non-homogeneous commercial and commercial real estate loans, and restructured loans that are deemed TDRs.

When a loan is identified as impaired, the impairment is measured on an individual loan level as the difference between the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount) and the present value of expected future cash flows, discounted at the loan's effective interest rate. When collateral is the sole source of repayment for the impaired loan, rather than the borrower's income or other sources of repayment, the Company charges down the loan to its net realizable value.

Troubled Debt Restructuring

The Company seeks to modify certain loans in conjunction with its loss-mitigation activities. In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession for other than an insignificant time period to the borrower that it would not otherwise consider, the related loan is classified as a TDR. Concessions may include lowering the interest rate, forgiving a portion of principal, extending the loan term, lowering scheduled payments for a specified period of time, principal forbearance, or capitalizing past due amounts. A rate increase can be considered a concession if the increased rate is lower than a market rate for loans with risk similar to that of the restructured loan. TDRs for commercial loans may also involve creating a multiple note structure, accepting non-cash assets, accepting an equity interest, or receiving a performance-based fee. In some cases a TDR may involve multiple concessions. The financial effects of TDRs for all loan classes may include lower income (either due to a lower interest rate or a delay in the timing of cash flows), larger loan loss provisions, and accelerated charge-offs if the modification renders the loan collateral-dependent. In some cases interest income throughout the term of the loan may increase if, for example, the loan term is extended or the interest rate is increased as a result of the restructuring. Loans are classified as TDRs until paid off, sold, or refinanced at market terms.

Retail and commercial loans whose contractual terms have been modified in a TDR and are current at the time of restructuring may remain on accrual status if there is demonstrated performance prior to the restructuring and payment in full under the restructured terms is expected. Retail loans that were discharged in bankruptcy and not reaffirmed by the borrower are deemed to be collateral-dependent TDRs and are generally charged off to the fair value of the collateral, less cost to sell, and less amounts recoverable under a government guarantee (if any). Cash receipts on nonaccruing impaired loans, including nonaccruing loans involved in TDRs, are generally applied to reduce the unpaid principal balance. Certain TDRs that are current in payment status are classified as nonaccrual in accordance with regulatory guidance. Income on the loans is generally recognized on a cash basis if management believes that the remaining book value of the loan is realizable.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization have been computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the life of the lease (including renewal options if exercise of those options is reasonably assured) or their estimated useful life, whichever is shorter.

Additions to property, plant and equipment are recorded at cost. The cost of major additions, improvements and betterments is capitalized. Normal repairs and maintenance and other costs that do not improve the property, extend the useful life or otherwise do not meet capitalization criteria are charged to expense as incurred. The Company evaluates premises and equipment for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable.

Software

Costs related to computer software developed or obtained for internal use are capitalized if the projects improve functionality and provide long-term future operational benefits. Capitalized costs are amortized using the straight-line method over the asset's expected useful life, based upon the basic pattern of consumption and economic benefits provided by the asset. The Company begins to amortize the software when the asset (or identifiable component of the asset) is substantially complete and ready for its intended use. All other costs incurred in connection with an internal-use software project are expensed as incurred. Capitalized software is included in other assets on the Consolidated Balance Sheets.

Operating Lease Assets

Operating lease rental income for leased assets is recognized in other income on a straight-line basis over the lease term. Related depreciation expense is recorded on a straight-line basis over the estimated useful life, considering the estimated residual value of the leased asset. On a periodic basis, leased assets are reviewed for impairment. Impairment loss is recognized in other noninterest expense if the carrying amount of the leased assets exceeds fair value and is not recoverable. The carrying amount of leased assets is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the lease payments and the estimated residual value upon the eventual disposition of the asset.

Fair Value

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

A portion of the Company's assets and liabilities is carried at fair value, including AFS securities, derivative instruments and other investment securities. In addition, the Company elects to account for its residential mortgages held for sale at fair value. The Company classifies its assets and liabilities that are carried at fair value in accordance with the three-level valuation hierarchy:

- Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar instruments, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by market data for substantially the full term of the asset or liability.
- Level 3. Unobservable inputs that are supported by little or no market information and that are significant to the fair value measurement.

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

The Company reviews and updates the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs in fair value measurements may result in a reclassification between the fair value hierarchy levels and are recognized based on period-end balances.

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

Goodwill

Goodwill is the purchase premium associated with the acquisition of a business and is assigned to reporting units at the acquisition date. A reporting unit is a business operating segment or a component of a business operating segment. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

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

The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangible. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss that is recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

The Company reviews goodwill for impairment annually as of October 31, or more often if events or circumstances indicate that it is more likely than not that the fair value of one or more reporting units is below its carrying value. The fair values of the Company's reporting units are determined using a combination of income and market-based approaches. The Company relies on the income approach (discounted cash flow method) for determining fair value. Market and transaction approaches are used as benchmarks only to corroborate the value determined by the discounted cash flow method. The Company relies on several assumptions when estimating the fair value of its reporting units using the discounted cash flow method. These assumptions include the discount rate, as well as projected loan loss, income tax and capital retention rates.

Discount rates are estimated based on the Capital Asset Pricing Model, which considers the risk-free interest rate, market risk premium, beta, and unsystematic risk and size premium adjustments specific to a particular reporting unit. The discount rates are also calibrated on the assessment of the risks related to the projected cash flows of each reporting unit. Cash flow projections include estimates for projected loan loss, income tax and capital retention rates. Multi-year financial forecasts are developed for each reporting unit by considering several key business drivers such as new business initiatives, customer retention standards, market share changes, anticipated loan and deposit growth, forward interest rates, historical performance, and industry and economic trends, among other considerations. The long-term growth rate used in determining the terminal value of each reporting unit is estimated based on management's assessment of the minimum expected terminal growth rate of each reporting unit, as well as broader economic considerations such as GDP and inflation.

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

Bank-Owned Life Insurance

Bank-owned life insurance is stated at its cash surrender value. The Company is the beneficiary of life insurance policies on current and former officers and selected employees of the Company.

Employee Benefits

Pension costs under defined benefit plans are actuarially computed and include current service costs and amortization of prior service costs over the participants' average future working lifetime. The actuarial cost method used in determining the net periodic pension cost is the projected unit method. The cost of postretirement and postemployment benefits other than pensions is recognized on an accrual basis during the periods employees provide services to earn those benefits.

Share-Based Compensation

The Company has share-based employee compensation plans as outlined in Note 24 “Share-Based Compensation,” pursuant to which stock awards are granted to employees and non-employee directors. The Company measures compensation expense related to stock awards based upon the fair value of the awards on the grant date, adjusted for forfeitures. The related expense is charged to earnings on a straight-line basis over the requisite service period (e.g., vesting period) of the award. With respect to performance-based stock awards, compensation expense is adjusted upward or downward based upon the probability of achievement of performance. Awards that continue to vest after retirement are expensed over the shorter of the period of time from grant date to the final vesting date or from the grant date to the date when an employee is retirement eligible. Awards granted to employees who are retirement eligible at the grant date are generally expensed immediately upon grant.

Derivatives

The Company is party to a variety of derivative transactions, including interest rate swap contracts, interest rate options, foreign exchange contracts, residential loan commitment rate locks, forward sale contracts, warrants and purchase options. The Company enters into contracts in order to meet the financing needs of its customers. The Company also enters into contracts as a means of reducing its interest rate and foreign currency risks, and these contracts are designated as hedges when acquired, based on management’s intent. The Company monitors the results of each transaction to ensure that management’s intent is satisfied.

All derivatives, whether designated for hedging relationships or not, are recognized in the Consolidated Balance Sheets at fair value. For derivatives designated for hedging purposes, net interest accruals are treated as an adjustment of interest income or interest expense of the item being hedged. If a derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in AOCI, a component of stockholders’ equity. The ineffective portions of cash flow hedges are immediately recognized as an adjustment to other income. For cash flow hedging relationships that have been discontinued, balances in OCI are reclassified to interest income or interest expense in the periods during which the hedged item affects income. If it is probable that the hedged forecasted transaction will not occur, balances in OCI are reclassified immediately to other income.

If a derivative is designated as a fair value hedge, gains or losses attributable to the change in fair value of the derivative instrument, as well as the gains and losses attributable to the change in fair value of the hedged item, are recognized in other income in the period in which the change in fair value occurs. Hedge ineffectiveness is recognized as other income to the extent the changes in fair value of the derivative do not offset the changes in fair value of the hedged item. Changes in the fair value of derivatives that do not qualify as hedges are recognized immediately in other income.

Derivative assets and derivative liabilities are netted by counterparty on the balance sheet if a “right of setoff” has been established in a master netting agreement between the Company and the counterparty. This netted derivative asset or liability position is also netted against the fair value of any cash collateral that has been pledged or received in accordance with a CSA.

Transfers and Servicing of Financial Assets

A transfer of financial assets is accounted for as a sale when control over the assets transferred is surrendered. Assets transferred that satisfy the conditions of a sale are derecognized, and all assets obtained and liabilities incurred in a purchase are recognized and measured at fair value. Servicing rights retained in the transfer of financial assets are initially recognized at fair value. Subsequent to the initial recognition date, the Company recognizes periodic amortization expense of servicing rights and assesses servicing rights for impairment.

Variable Interest Entities

The Company makes equity investments in various entities that are considered VIEs, as defined by GAAP. A VIE typically does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. The Company’s variable interest arises from contractual, ownership or other monetary interests in the entity, which change with fluctuations in the fair value of the entity's net assets. The Company consolidates a VIE if it is the primary beneficiary of the entity. The Company is the primary beneficiary of a VIE if its variable interest provides it with the power to direct the activities that most significantly impact the VIE and the right to receive benefits (or the obligation to absorb losses) that could potentially be significant to the VIE. To determine whether or not a variable interest held could potentially be significant to the VIE, the Company considers both qualitative and quantitative factors regarding the nature, size and form of our involvement with the VIE. The Company assesses whether or not it is the primary beneficiary of a VIE on an ongoing basis.

Mortgage Banking

Mortgage loans held for sale are accounted for at fair value on an individual loan basis. Changes in the fair value, and realized gains and losses on the sales of mortgage loans, are reported in mortgage banking fees.

The Company recognizes the right to service mortgage loans for others, or MSRs, as assets whether the Company purchases the MSRs or the MSRs result from a sale. MSRs are initially accounted for at fair value, and subsequently accounted for in the Consolidated Balance Sheets net of accumulated amortization, which is recorded in proportion to, and over the period of, net servicing income. The Company's identification of MSRs in a single class is determined based on the availability of market inputs and the Company's method of managing MSR risks. For the purpose of impairment evaluation and measurement, MSRs are stratified based on predominant risk characteristics (such as interest rate, loan size, origination date, term, or geographic location) of the underlying loans. An allowance is then established in the event the recorded value of an individual stratum exceeds fair value.

The Company accounts for derivatives in its mortgage banking operations at fair value on the balance sheet as derivative assets or derivative liabilities, depending on whether the derivative had a positive (asset) or negative (liability) fair value as of the balance sheet date. The Company's mortgage banking derivatives include commitments to originate mortgages held for sale, certain loan sale agreements, and other financial instruments that meet the definition of a derivative.

Income Taxes

The Company uses an asset and liability (balance sheet) approach for financial accounting and reporting of income taxes. This results in two components of income tax expense: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the current period. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. These gross deferred tax assets and liabilities represent decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences in the bases of assets and liabilities, as measured by tax laws, and their bases, as reported in the Consolidated Financial Statements.

Deferred tax assets are recognized for net operating loss carryforwards and tax credit carryforwards. Valuation allowances are recorded as necessary to reduce deferred tax assets to the amounts that management concludes are more likely than not to be realized.

The Company also assesses the probability that the positions taken, or expected to be taken, in its income tax returns will be sustained by taxing authorities. A "more likely than not" (more than 50 percent) recognition threshold must be met before a tax benefit can be recognized. Tax positions that are more likely than not to be sustained are reflected in the Company's Consolidated Financial Statements.

Tax positions are measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The difference between the benefit recognized for a position and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit.

Treasury Stock

The purchase of the Company's common stock is recorded at cost. At the date of retirement or subsequent reissuance, treasury stock is reduced by the cost of such stock on a first-in, first-out basis with differences recorded in additional paid-in capital or retained earnings, as applicable.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest income on loans and securities classified as AFS or HTM is determined using the effective interest method. This method calculates periodic interest income at a constant effective yield on the net investment in the loan or security, to provide a constant rate of return over the terms of the financial assets. Financial assets accounted for using the fair value option, are measured at fair value with corresponding changes recognized in noninterest income.

Loan commitment fees for loans that are likely to be drawn down, and other credit related fees, are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight-line basis.

Other types of noninterest revenues, such as service charges on deposits, interchange income on credit cards and trust revenues, are accrued and recognized into income as services are provided and the amount of fees earned are reasonably determinable.

Earnings Per Share

Basic EPS is computed by dividing net income/(loss) available to common stockholders by the weighted-average number of common shares outstanding during each period. Net income/(loss) available to common stockholders represents net income after preferred stock dividends, accretion of the discount on preferred stock issuances, and gains or losses from any repurchases of preferred stock. Diluted EPS is computed by dividing net income/(loss) available to common stockholders by the weighted-average number of common shares outstanding during each period, plus potential dilutive shares such as share-based payment awards and warrants using the treasury stock method.

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 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 using a current expected credit losses model 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 debt 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 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The Company has begun its implementation efforts by establishing a company-wide, cross-discipline governance structure. The Company is currently identifying key interpretive issues, and is comparing existing credit loss forecasting models and processes with the new guidance to determine what modifications may be required. While the Company is currently evaluating the impact the ASU will have on its Consolidated Financial Statements, the Company expects the ASU will result in an earlier recognition of credit losses and an increase in the allowance for credit losses.

In March 2016, the FASB issued ASU No. 2016-09 "Compensation - Stock Compensation (Topic 718) - 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. 2016-05 "Derivatives and Hedging (Topic 815) - 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 Company beginning on January 1, 2017. Adoption of this guidance will not 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 requires lessees and lessors to classify most leases using principles similar to existing lease accounting, but eliminates the "bright line" classification tests. It also requires that for finance leases, a lessee recognize interest expense on the lease liability, separately from the amortization of the right-of-use asset in the statements of earnings, while for operating leases, such amounts should be recognized as a combined expense. In addition, this ASU requires expanded disclosures about the nature and terms of lease agreements. The ASU is effective for the Company beginning on January 1, 2019, using a modified cumulative effect approach wherein the guidance is applied to all periods presented. The Company has begun its implementation efforts and is currently evaluating the potential impact on the Consolidated Financial Statements of its existing lease contracts and service contracts that may include embedded leases. The Company expects an increase of its Consolidated Balance Sheets as a result of recognizing lease liabilities and right of use assets; the extent of such increase is under evaluation. The Company does not expect material changes to the recognition of operating lease expense in its Consolidated Statements of Operations.

In January 2016, the FASB issued ASU No. 2016-01 "Financial Instruments (Topic 825) - 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. Adoption of this guidance will not have a material impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)". The ASU requires that revenue from contracts with customers be recognized upon transfer of control of a good or service in the amount of consideration expected to be received. The ASU also requires new qualitative and quantitative disclosures, including information about contract balances and performance obligations. The Company's revenue is balanced between net interest income on financial assets and liabilities, which is explicitly excluded from the scope of the ASU, and noninterest income. The Company has begun its implementation efforts which include the identification of revenue within the scope of the guidance, as well as the evaluation of related revenue contracts. Based on this effort, adoption of the ASU is not expected to have a material impact on the timing of revenue recognition. The Company plans to adopt the revenue recognition guidance in the first quarter of 2018.

NOTE 2 - CASH AND DUE FROM BANKS

The Company's subsidiary banks maintain certain average reserve balances and compensating balances for check clearing and other services with the FRB. At December 31, 2016 and 2015, the balance of deposits at the FRB amounted to $2.7 billion and $2.0 billion, respectively. Average balances maintained with the FRB during the years ended December 31, 2016, 2015, and 2014 exceeded amounts required by law for the FRB's requirements. All amounts, both required and excess reserves, held at the FRB currently earn interest at a fixed rate of 75 basis points. The Company recorded interest income on FRB deposits of $7 million, $4 million, and $5 million for the years ended December 31, 2016, 2015, and 2014, respectively, in interest-bearing deposits in banks in the Consolidated Statement of Operations.

NOTE 3 - SECURITIES

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

	December 31, 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	$30	$—	$—	$30	$16	$—	$—	$16
State and political subdivisions	8	—	—	8	9	—	—	9
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	19,231	78	(264)	19,045	17,234	153	(67)	17,320
Other/non-agency	427	2	(28)	401	555	4	(37)	522
Total mortgage-backed securities	19,658	80	(292)	19,446	17,789	157	(104)	17,842
Total debt securities available for sale	19,696	80	(292)	19,484	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	$19,713	$80	($292)	$19,501	$17,831	$157	($104)	$17,884
Securities Held to Maturity								
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	$4,126	$12	($44)	$4,094	$4,105	$27	($11)	$4,121
Other/non-agency	945	19	—	964	1,153	23	—	1,176
Total securities held to maturity	$5,071	$31	($44)	$5,058	$5,258	$50	($11)	$5,297
Other Investment Securities, at Fair Value								
Money market mutual fund	$91	$—	$—	$91	$65	$—	$—	$65
Other investments	5	—	—	5	5	—	—	5
Total other investment securities, at fair value	$96	$—	$—	$96	$70	$—	$—	$70
Other Investment Securities, at Cost								
Federal Reserve Bank stock	$463	$—	$—	$463	$468	$—	$—	$468
Federal Home Loan Bank stock	479	—	—	479	395	—	—	395
Total other investment securities, at cost	$942	$—	$—	$942	$863	$—	$—	$863

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

	Year Ended December 31,		
(in millions)	2016	2015	2014
Other-than-temporary impairment:			
Total other-than-temporary impairment losses	($39)	($43)	($45)
Portions of loss recognized in other comprehensive income (before taxes)	27	36	35
Net securities impairment losses recognized in earnings	($12)	($7)	($10)

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:

	December 31, 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
State and political subdivisions	1	$8	$—	—	$—	$—	1	$8	$—
Mortgage-backed securities:									
Federal agencies and U.S. government sponsored entities	323	15,387	(292)	25	461	(16)	348	15,848	(308)
Other/non-agency	4	8	—	20	302	(28)	24	310	(28)
Total mortgage-backed securities	327	15,395	(292)	45	763	(44)	372	16,158	(336)
Total	328	$15,403	($292)	45	$763	($44)	373	$16,166	($336)

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

If the Company intends to sell the impaired debt security, or if it is more likely than not it will be required to sell the security before recovery, the impairment loss recognized in current period earnings equals the difference between the amortized cost basis and the fair value of the security. 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 other-than-temporary impairment write-down is separated into an amount representing the credit loss, which is recognized in current period earnings and the amount related to all other factors, which is recognized in OCI.

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 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:

	Year Ended December 31,		
(in millions)	2016	2015	2014
Cumulative balance at beginning of period	$66	$62	$56
Credit impairments recognized in earnings on securities that have been previously impaired	12	7	10
Reductions due to increases in cash flow expectations on impaired securities [(1)]	(3)	(3)	(4)
Cumulative balance at end of period	$75	$66	$62

[(1)] Reported in interest income from investment securities on the Consolidated Statements of Operations.

Cumulative credit losses recognized in earnings for impaired AFS debt securities held as of December 31, 2016, 2015 and 2014 were $75 million, $66 million and $62 million, respectively. There were no credit losses recognized in earnings for the Company's HTM portfolio as of December 31, 2016, 2015 and 2014.

For the years ended December 31, 2016, 2015 and 2014, the Company incurred non-agency MBS credit related other-than-temporary impairment losses in earnings of $12 million, $7 million and $10 million, respectively. Other-than-temporary impairment losses for the year ended December 31, 2016 reflect a $5 million increase from the year ended December 31, 2015 related to a one-time adjustment tied to the June 2016 migration 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 years ended December 31, 2016, 2015 and 2014, respectively. 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 non-credit-related factors such as changing interest rates and market liquidity. 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, as of December 31, 2016, 2015 and 2014, $27 million, $36 million and $35 million respectively, of pre-tax non-credit related losses were deferred in OCI.

The amortized cost and fair value of debt securities at December 31, 2016 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.

	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	$30	$—	$—	$—	$30
State and political subdivisions	—	—	—	8	8
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	1	27	1,177	18,026	19,231
Other/non-agency	—	36	3	388	427
Total debt securities available for sale	31	63	1,180	18,422	19,696
Debt securities held to maturity:					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	4,126	4,126
Other/non-agency	—	—	—	945	945
Total debt securities held to maturity	—	—	—	5,071	5,071
Total amortized cost of debt securities	$31	$63	$1,180	$23,493	$24,767
Fair Value:					
Debt securities available for sale					
U.S. Treasury and other	$30	$—	$—	$—	$30
State and political subdivisions	—	—	—	8	8
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	1	28	1,194	17,822	19,045
Other/non-agency	—	36	3	362	401
Total debt securities available for sale	31	64	1,197	18,192	19,484
Debt securities held to maturity					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	4,094	4,094
Other/non-agency	—	—	—	964	964
Total debt securities held to maturity	—	—	—	5,058	5,058
Total fair value of debt securities	$31	$64	$1,197	$23,250	$24,542

Taxable interest income from investment securities as presented on the Consolidated Statements of Operations was $584 million, $621 million and $619 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Realized gains and losses on securities are presented below:

	Year Ended December 31,		
(in millions)	2016	2015	2014
Gains on sale of debt securities	$18	$41	$33
Losses on sale of debt securities	(2)	(12)	(5)
Debt securities gains, net	$16	$29	$28
Equity securities gains	$3	$3	$—

In advance of the July 2017 Volcker Rule's effective date, during the year ended December 31, 2015, the Company sold a $73 million mortgage-backed security that was classified as HTM, which would have been prohibited under the Volcker Rule, and recognized a $2 million gain.

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

	December 31, 2016		December 31, 2015	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pledged against repurchase agreements	$631	$620	$805	$808
Pledged against FHLB borrowed funds	953	972	1,163	1,186
Pledged against derivatives, to qualify for fiduciary powers, and to secure public and other deposits as required by law	3,575	3,563	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:

	December 31, 2016			December 31, 2015		
(in millions)	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 16 "Derivatives."

Securitizations of mortgage loans retained in the investment portfolio for the years ended December 31, 2016, 2015 and 2014, were $68 million, $3 million and $18 million, respectively. These securitizations included a substantive guarantee by a third party. In 2016, the guarantors were Fannie Mae and Ginnie Mae. In 2015, the guarantor was Freddie Mac. In 2014, the guarantors were Fannie Mae, Ginnie Mae, and Freddie Mac. 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 4 - 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 is presented below:

	December 31,	
(in millions)	2016	2015
Commercial	$37,274	$33,264
Commercial real estate	10,624	8,971
Leases	3,753	3,979
Total commercial	51,651	46,214
Residential mortgages	15,115	13,318
Home equity loans	1,858	2,557
Home equity lines of credit	14,100	14,674
Home equity loans serviced by others	750	986
Home equity lines of credit serviced by others	219	389
Automobile	13,938	13,828
Student	6,610	4,359
Credit cards	1,691	1,634
Other retail	1,737	1,083
Total retail	56,018	52,828
Total loans and leases (1) (2)	$107,669	$99,042

(1) Excluded from the table above are loans held for sale totaling $625 million and $365 million as of December 31, 2016 and 2015, respectively.
(2) Mortgage loans serviced for others by the Company's subsidiaries are not included above, and amounted to $17.3 billion and $17.6 billion at December 31, 2016 and 2015, respectively.

During the year ended December 31, 2016, the Company purchased $1.2 billion of student loans, $695 million of automobile loans and $539 million of residential mortgages. During the year ended December 31, 2015, the Company purchased $957 million of student loans, $1.3 billion of automobile loans and $1.1 billion of residential mortgages.

During the year ended December 31, 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 year ended December 31, 2016, the Company sold $444 million of residential mortgage loans and $147 million of commercial loans. During the year ended December 31, 2015, the Company sold $273 million of residential mortgage loans, $401 million of commercial loans and $41 million of credit card balances.

Loans held for sale at fair value totaled $583 million and $325 million at December 31, 2016 and 2015, respectively, and consisted of residential mortgages originated for sale of $504 million and loans in the commercial trading portfolio of $79 million as of December 31, 2016. As of December 31, 2015, residential mortgages originated for sale were $268 million and loans in the commercial trading portfolio totaled $57 million. Other loans held for sale totaled $42 million and $40 million as of December 31, 2016 and 2015, respectively, and consisted of commercial loan syndications.

Loans pledged as collateral for FHLB borrowed funds, primarily residential mortgages and home equity loans, totaled $24.0 billion and $23.2 billion at December 31, 2016 and 2015, respectively. This collateral consists primarily of residential mortgages and home equity loans. Loans pledged as collateral to support the contingent ability to borrow at the FRB discount window, if necessary, totaled $16.8 billion and $15.9 billion at December 31, 2016 and 2015, respectively.

The Company is engaged in the leasing of equipment for commercial use, with primary lease concentrations to Fortune 1000 companies for large capital equipment acquisitions. A lessee is evaluated from a credit perspective using the same underwriting standards and procedures as for a loan borrower. A lessee is expected to make rental payments based on its cash flows and the viability of its balance sheet. Leases are usually not evaluated as collateral-based transactions, and therefore the lessee's overall financial strength is the most important credit evaluation factor.

A summary of the investment in leases, before the ALLL, is presented below:

	December 31,	
(in millions)	2016	2015
Direct financing leases	$3,670	$3,898
Leveraged leases	83	81
Total leases	$3,753	$3,979

The components of the investment in leases, before the ALLL, are presented below:

	December 31,	
(in millions)	2016	2015
Total future minimum lease rentals	$2,922	$3,195
Estimated residual value of leased equipment (non-guaranteed)	1,166	1,157
Initial direct costs	20	22
Unearned income on minimum lease rentals and estimated residual value of leased equipment	(355)	(395)
Total leases	$3,753	$3,979

The future minimum lease rentals on direct financing and leveraged leases at December 31, 2016 are presented below:

Year	(in millions)
2017	$647
2018	610
2019	532
2020	401
2021	274
Thereafter	458
Total	$2,922

There was no investment credit recognized in income during the years ended December 31, 2016, 2015 and 2014.

NOTE 5 - 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" 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 years that impacted the determination of the current year'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:

	Year ended December 31, 2016		
(in millions)	Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	$596	$620	$1,216
Charge-offs	(79)	(457)	(536)
Recoveries	33	168	201
Net charge-offs	(46)	(289)	(335)
Provision charged to income	113	242	355
Allowance for loan and lease losses, end of period	663	573	1,236
Reserve for unfunded lending commitments, beginning of period	58	—	58
Provision (credit) for unfunded lending commitments	14	—	14
Reserve for unfunded lending commitments as of period end	72	—	72
Total allowance for credit losses as of period end	$735	$573	$1,308

	Year Ended December 31, 2015		
(in millions)	Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	$544	$651	$1,195
Charge-offs	(36)	(444)	(480)
Recoveries	49	147	196
Net recoveries (charge-offs)	13	(297)	(284)
Provision charged to income	39	266	305
Allowance for loan and lease losses, end of period	596	620	1,216
Reserve for unfunded lending commitments, beginning of period	61	—	61
Provision (credit) for unfunded lending commitments	(3)	—	(3)
Reserve for unfunded lending commitments as of period end	58	—	58
Total allowance for credit losses as of period end	$654	$620	$1,274

	Year Ended December 31, 2014		
(in millions)	Commercial	Retail	Total
Allowance for loan and lease losses, beginning of period	$498	$723	$1,221
Charge-offs	(43)	(450)	(493)
Recoveries	58	112	170
Net recoveries (charge-offs)	15	(338)	(323)
Provision charged to income	31	266	297
Allowance for loan and lease losses, end of period	544	651	1,195
Reserve for unfunded lending commitments, beginning of period	39	—	39
Provision (credit) for unfunded lending commitments	22	—	22
Reserve for unfunded lending commitments as of period end	61	—	61
Total allowance for credit losses as of period end	$605	$651	$1,256

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

	December 31, 2016			December 31, 2015		
(in millions)	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	$424	$799	$1,223	$218	$1,165	$1,383
Formula-based evaluation	51,227	55,219	106,446	45,996	51,663	97,659
Total	$51,651	$56,018	$107,669	$46,214	$52,828	$99,042

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

	December 31, 2016			December 31, 2015		
(in millions)	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	$63	$43	$106	$36	$101	$137
Formula-based evaluation	672	530	1,202	618	519	1,137
Allowance for credit losses	$735	$573	$1,308	$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 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:

	December 31, 2016				
		Criticized			
(in millions)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$35,010	$1,015	$1,027	$222	$37,274
Commercial real estate	10,146	370	58	50	10,624
Leases	3,583	52	103	15	3,753
Total	$48,739	$1,437	$1,188	$287	$51,651

	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

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

	December 31, 2016					
		Days Past Due				
(in millions)	Current	1-29	30-59	60-89	90 or More	Total
Residential mortgages	$14,807	$108	$53	$12	$135	$15,115
Home equity loans	1,628	127	23	7	73	1,858
Home equity lines of credit	13,432	396	57	20	195	14,100
Home equity loans serviced by others	673	41	14	5	17	750
Home equity lines of credit serviced by others	158	25	3	2	31	219
Automobile	12,509	1,177	172	38	42	13,938
Student	6,379	151	24	13	43	6,610
Credit cards	1,611	43	12	9	16	1,691
Other retail	1,676	45	8	4	4	1,737
Total	$52,873	$2,113	$366	$110	$556	$56,018

	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

Nonperforming Assets

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

	Nonperforming [1]		Accruing and 90 days or more past due	
(in millions)	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Commercial	$322	$71	$2	$1
Commercial real estate	50	77	—	—
Leases	15	—	—	—
Total commercial	387	148	2	1
Residential mortgages [2] [3]	144	331	18	—
Home equity loans	98	135	—	—
Home equity lines of credit	243	272	—	—
Home equity loans serviced by others	32	38	—	—
Home equity lines of credit serviced by others	33	32	—	—
Automobile	50	42	—	—
Student	38	41	5	6
Credit cards	16	16	—	—
Other retail	4	5	1	2
Total retail	658	912	24	8
Total	$1,045	$1,060	$26	$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 December 31, 2016, $18 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 December 31, 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:

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

A summary of key performance indicators is presented below:

	December 31,	
	2016	2015
Nonperforming commercial loans and leases as a percentage of total loans and leases [1]	0.36%	0.15%
Nonperforming retail loans as a percentage of total loans and leases [1]	0.61	0.92
Total nonperforming loans and leases as a percentage of total loans and leases [1]	0.97%	1.07%
Nonperforming commercial assets as a percentage of total assets [1]	0.26%	0.11%
Nonperforming retail assets as a percentage of total assets [1]	0.47	0.69
Total nonperforming assets as a percentage of total assets [1]	0.73%	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.

The recorded investment in mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings are in process was $177 million and $257 million as of December 31, 2016 and 2015, respectively.

An analysis of the age of both accruing and nonaccruing loan and lease past due amounts is presented below:

	December 31, 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	$36	$4	$324	$364	$9	$4	$71	$84
Commercial real estate	1	2	50	53	30	3	77	110
Leases	1	—	15	16	9	1	—	10
Total commercial	38	6	389	433	48	8	148	204
Residential mortgages	53	12	135	200	54	16	246	316
Home equity loans	23	7	73	103	32	12	104	148
Home equity lines of credit	57	20	195	272	60	20	205	285
Home equity loans serviced by others	14	5	17	36	14	6	20	40
Home equity lines of credit serviced by others	3	2	31	36	10	6	29	45
Automobile	172	38	42	252	127	32	35	194
Student	24	13	43	80	19	11	41	71
Credit cards	12	9	16	37	11	9	16	36
Other retail	8	4	4	16	8	4	5	17
Total retail	366	110	556	1,032	335	116	701	1,152
Total	$404	$116	$945	$1,465	$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:

	December 31, 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	$247	$55	$134	$431	$381
Commercial real estate	39	8	4	44	43
Total commercial	286	63	138	475	424
Residential mortgages	37	2	141	235	178
Home equity loans	51	3	94	191	145
Home equity lines of credit	23	1	173	240	196
Home equity loans serviced by others	41	4	19	70	60
Home equity lines of credit serviced by others	2	—	7	13	9
Automobile	4	—	15	25	19
Student	154	25	1	155	155
Credit cards	26	6	—	26	26
Other retail	10	2	1	13	11
Total retail	348	43	451	968	799
Total	$634	$106	$589	$1,443	$1,223

	December 31, 2015				
(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	$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:

	Year Ended December 31,					
	2016		2015		2014	
(in millions)	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
Commercial	$5	$295	$4	$135	$9	$198
Commercial real estate	—	53	1	44	2	98
Leases	—	3	—	—	—	—
Total commercial	5	351	5	179	11	296
Residential mortgages	4	161	15	415	14	429
Home equity loans	7	144	9	222	8	246
Home equity lines of credit	6	178	4	173	4	149
Home equity loans serviced by others	3	60	4	75	5	91
Home equity lines of credit serviced by others	—	9	—	9	—	11
Automobile	—	14	—	11	—	7
Student	7	150	7	157	8	153
Credit cards	2	23	2	26	2	31
Other retail	1	12	1	16	1	21
Total retail	30	751	42	1,104	42	1,138
Total	$35	$1,102	$47	$1,283	$53	$1,434

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to the borrower's financial difficulties, the Company grants a concession for other than an insignificant time period to the borrower that it would not otherwise consider, the related loan is classified as a TDR. 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 included 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 $120 million and $155 million on December 31, 2016 and 2015, respectively. Retail TDRs totaled $799 million and $1.2 billion on December 31, 2016 and 2015, respectively, down primarily due to the previously mentioned TDR sale. Unfunded commitments tied to TDRs were $42 million and $15 million on December 31, 2016 and 2015, respectively.

The table below summarizes how loans were modified during the year ended December 31, 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 December 31, 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	12	$1	$1	81	$20	$21
Commercial real estate	1	—	—	1	5	5
Total commercial	13	1	1	82	25	26
Residential mortgages	71	10	10	60	10	10
Home equity loans	97	6	6	39	4	5
Home equity lines of credit	49	4	4	121	13	12
Home equity loans serviced by others	18	1	1	—	—	—
Home equity lines of credit serviced by others	8	—	—	5	1	1
Automobile	138	3	3	41	1	1
Student	—	—	—	—	—	—
Credit cards	2,187	12	12	—	—	—
Other retail	4	—	—	—	—	—
Total retail	2,572	36	36	266	29	29
Total	2,585	$37	$37	348	$54	$55

	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	14	$48	$48	$3	$—
Commercial real estate	—	—	—	—	—
Total commercial	14	48	48	3	—
Residential mortgages	247	26	26	(1)	—
Home equity loans	279	18	17	(1)	—
Home equity lines of credit	304	23	22	—	1
Home equity loans serviced by others	60	2	2	—	—
Home equity lines of credit serviced by others	24	1	1	—	—
Automobile	1,081	20	18	—	3
Student	479	12	12	4	—
Credit cards	—	—	—	3	—
Other retail	13	—	—	—	—
Total retail	2,487	102	98	5	4
Total	2,501	$150	$146	$8	$4

(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.

The table below summarizes how loans were modified during the year ended December 31, 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 December 31, 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	25	$19	$19	160	$22	$22
Commercial real estate	1	—	—	1	—	—
Total commercial	26	19	19	161	22	22
Residential mortgages	153	31	31	40	7	6
Home equity loans	96	5	5	191	35	35
Home equity lines of credit	4	1	1	23	2	2
Home equity loans serviced by others	29	2	2	—	—	—
Home equity lines of credit serviced by others	2	—	—	1	—	—
Automobile	108	2	2	5	—	—
Student	—	—	—	—	—	—
Credit cards	2,413	13	13	—	—	—
Other retail	3	—	—	—	—	—
Total retail	2,808	54	54	260	44	43
Total	2,834	$73	$73	421	$66	$65

	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	16	$34	$34	($1)	$1
Commercial real estate	1	4	4	—	—
Total commercial	17	38	38	(1)	1
Residential mortgages	275	33	33	(1)	—
Home equity loans	448	28	28	—	1
Home equity lines of credit	320	21	19	—	2
Home equity loans serviced by others	124	6	5	—	1
Home equity lines of credit serviced by others	41	3	2	—	—
Automobile	812	14	12	—	2
Student	1,204	22	22	4	—
Credit cards	—	—	—	2	—
Other retail	20	—	—	—	—
Total retail	3,244	127	121	5	6
Total	3,261	$165	$159	$4	$7

[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.

The table below summarizes how loans were modified during the year ended December 31, 2014, the charge-offs related to the modifications, and the impact on the ALLL. The reported balances can include loans that became TDRs during 2014 and were paid off in full, charged off, or sold prior to December 31, 2014.

	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	25	$8	$7	131	$21	$22
Commercial real estate	9	1	2	15	3	2
Total commercial	34	9	9	146	24	24
Residential mortgages	126	17	17	40	6	5
Home equity loans	125	8	9	85	5	6
Home equity lines of credit	7	—	—	276	17	16
Home equity loans serviced by others	42	2	2	—	—	—
Home equity lines of credit serviced by others	4	—	—	1	—	—
Automobile	75	1	1	18	—	—
Student	—	—	—	—	—	—
Credit cards	2,165	12	12	—	—	—
Other retail	3	—	—	—	—	—
Total retail	2,547	40	41	420	28	27
Total	2,581	$49	$50	566	$52	$51

	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	27	$52	$74	$3	$—
Commercial real estate	1	7	7	—	3
Total commercial	28	59	81	3	3
Residential mortgages	393	47	46	(4)	1
Home equity loans	1,046	63	62	(1)	2
Home equity lines of credit	356	25	21	—	5
Home equity loans serviced by others	138	5	5	(1)	—
Home equity lines of credit serviced by others	39	2	2	—	—
Automobile	1,039	17	13	—	5
Student	1,675	31	31	5	—
Credit cards	—	—	—	—	—
Other retail	57	2	1	(1)	—
Total retail	4,743	192	181	(2)	13
Total	4,771	$251	$262	$1	$16

(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.

The table below summarizes TDRs that defaulted within 12 months of their modification date during 2016, 2015 and 2014. For purposes of this table, a payment default refers to a loan that becomes 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 December 31, 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.

	Year Ended December 31,					
	2016		2015		2014	
(dollars in millions)	Number of Contracts	Balance Defaulted	Number of Contracts	Balance Defaulted	Number of Contracts	Balance Defaulted
Commercial	22	$13	23	$2	37	$12
Commercial real estate	1	—	—	—	3	1
Total commercial	23	13	23	2	40	13
Residential mortgages	187	24	168	21	301	35
Home equity loans	50	3	184	13	329	24
Home equity lines of credit	155	13	131	7	229	12
Home equity loans serviced by others	37	1	43	1	60	2
Home equity lines of credit serviced by others	17	—	22	1	20	—
Automobile	110	2	87	1	112	1
Student	59	1	171	3	355	7
Credit cards	433	3	455	3	579	3
Other retail	3	—	4	—	12	—
Total retail	1,051	47	1,265	50	1,997	84
Total	1,074	$60	1,288	$52	2,037	$97

Concentrations of Credit Risk

Most of the Company's lending 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 December 31, 2016 and 2015, the Company had a significant amount of loans collateralized by residential and commercial real estate. There were no significant concentration risks 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.

The following tables present balances of loans with these characteristics:

	December 31, 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	$566	$550	$476	$—	$—	$1,592
Interest only/negative amortization	1,582	—	—	—	1	1,583
Low introductory rate	—	—	—	112	—	112
Multiple characteristics and other	3	—	—	—	—	3
Total	$2,151	$550	$476	$112	$1	$3,290

	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 6 - 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. The Company's maximum exposure to loss as a result of its involvement with these entities is limited to the balance sheet carrying amounts of its equity investments. A summary of these investments is presented below:

	December 31,	
(in millions)	2016	2015
LIHTC investment included in other assets	$793	$598
LIHTC unfunded commitments included in other liabilities	428	365
Renewable energy investments included in other assets	220	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.

Effective January 1, 2015, the Company adopted ASU 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects" and applies the proportional amortization method to account for its LIHTC investments. The retrospective adoption of ASU 2014-01 would have had an immaterial effect on the Company's financial statements; therefore, the Company applied ASU 2014-01 prospectively. 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 years ended December 31, 2016, and 2015.

	Year Ended December 31,	
(in millions)	2016	2015
Tax credits included in the provision for income taxes	$59	$45
Amortization expense included in the provision for income taxes	59	45
Other tax benefits included in the provision for income taxes	21	17

No LIHTC investment impairment losses were recognized during the years ended December 31, 2016 and 2015.

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 7 - PREMISES, EQUIPMENT AND SOFTWARE

A summary of the carrying value of premises and equipment is presented below:

		December 31,	
(dollars in millions)	Useful Lives	2016	2015
Land and land improvements	15 years	$47	$25
Buildings and leasehold improvements	7-40 years	684	634
Furniture, fixtures and equipment	5-15 years	1,714	1,667
Total premises and equipment, gross		2,445	2,326
Accumulated depreciation		(1,844)	(1,731)
Total premises and equipment, net		$601	$595

The table above includes capital leases with book values of $45 million and $47 million and related accumulated depreciation of $30 million and $25 million as of December 31, 2016 and 2015, respectively. Depreciation charged to noninterest expense was $130 million, $116 million, and $117 million for the years ended December 31, 2016, 2015, and 2014, respectively, and is presented in the Consolidated Statements of Operations in both occupancy and equipment expense.

The Company had capitalized software assets of $1.5 billion and $1.3 billion and related accumulated amortization of $691 million and $532 million as of December 31, 2016 and 2015, respectively. Amortization expense was $170 million, $146 million, and $145 million for the years ended December 31, 2016, 2015, and 2014, respectively. Capitalized software assets are reported as a component of other assets in the Consolidated Balance Sheets.

The estimated future amortization expense for capitalized software assets is presented below:

Year	(in millions)
2017	$160
2018	139
2019	108
2020	78
2021	41
Thereafter	114
Total [1]	$640

[1] Excluded from this balance is $138 million of in-process software at December 31, 2016.

NOTE 8 - LEASE COMMITMENTS

The Company is committed under long-term leases for the rental of premises and equipment. These leases have varying renewal options and in certain instances, require the payment of insurance, real estate taxes and other operating expenses.

At December 31, 2016, the aggregate minimum rental commitments under these non-cancelable operating leases and capital leases, exclusive of renewals, are presented below for the years ended December 31:

(in millions)	Operating Leases	Capital Leases
2017	$182	$7
2018	157	3
2019	122	2
2020	102	2
2021	82	2
Thereafter	164	9
Total minimum lease payments	$809	$25
Amounts representing interest	N/A	(9)
Present value of net minimum lease payments	N/A	$16

Occupancy and equipment expense included rental expense for non-cancelable operating leases and capital leases of $208 million, $205 million, and $214 million for the years ended December 31, 2016, 2015, and 2014, respectively.

NOTE 9 - GOODWILL

Goodwill represents the excess of fair value of purchased assets over the purchase price. Since 1988, the Company has completed more than 25 acquisitions of banks or assets of banks. There were no changes in the carrying value of goodwill for the years ended December 31, 2016 and 2015 as presented below:

(in millions)	Consumer Banking	Commercial Banking	Total
Balance at December 31, 2014	$2,136	$4,740	$6,876
Adjustments	—	—	—
Balance at December 31, 2015	$2,136	$4,740	$6,876
Adjustments	—	—	—
Balance at December 31, 2016	$2,136	$4,740	$6,876

Accumulated impairment losses related to the Consumer Banking reporting unit totaled $5.9 billion at December 31, 2016 and 2015. The accumulated impairment losses related to the Commercial Banking reporting unit totaled $50 million at December 31, 2016 and 2015.

The Company performs an annual test for impairment of goodwill at a level of reporting referred to as a reporting unit. The Company has identified and allocated goodwill to two reporting units — Consumer Banking and Commercial Banking — based upon reviews of the structure of the Company's executive team and supporting functions, resource allocations and financial reporting processes. No impairment was recorded for the years ended December 31, 2016, 2015 and 2014.

The valuation of goodwill is dependent on forward-looking expectations related to the performance of the U.S. economy and the associated financial performance of the Company.

NOTE 10 - 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 $2.7 billion, $2.7 billion, and $1.6 billion of proceeds from the sale of residential mortgages for the years ended December 31, 2016, 2015 and 2014, respectively. The Company recognized gains on sales of residential mortgages held for sale in mortgage banking fees in the Consolidated Statements of Operations of $69 million, $51 million, and $36 million for the years ended December 31, 2016, 2015 and 2014, respectively. Pursuant to the standard representations and warranties obligations discussed above, the Company repurchased residential mortgages totaling $6 million, $10 million, and $25 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Mortgage servicing fees, a component of mortgage banking fees, were $51 million, $55 million, and $59 million for the years ended December 31, 2016, 2015 and 2014, respectively. The Company recorded valuation recoveries of $4 million, $9 million, and $5 million for its MSRs for the years ended December 31, 2016, 2015 and 2014, respectively.

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

	As of and for the Year Ended December 31,	
(in millions)	2016	2015
MSRs:		
Balance as of January 1	$173	$184
Amount capitalized	29	26
Amortization	(35)	(37)
Carrying amount before valuation allowance	167	173
Valuation allowance for servicing assets:		
Balance as of January 1	9	18
Valuation recovery	(4)	(9)
Balance at end of period	5	9
Net carrying value of MSRs	$162	$164

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.

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

	December 31,					
	2016			2015		
(dollars in millions)	Weighted Average	Range		Weighted Average	Range	
Fair value	$182	Min	Max	$178	Min	Max
Weighted average life (in years)	5.7	2.6	7.3	5.4	2.8	6.2
Weighted average constant prepayment rate	10.8%	8.8%	22.3%	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:

	Year Ended December 31,		
	2016	2015	2014
Weighted average life (in years)	6.1	5.9	5.8
Weighted average constant prepayment rate	11.0%	10.7%	11.7%
Weighted average discount rate	9.7%	9.7%	10.3%

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 is 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.

	December 31,	
(in millions)	2016	2015
Prepayment rate:		
Decline in fair value from a 50 basis point decrease in interest rates	$9	$5
Decline in fair value from a 100 basis point decrease in interest rates	$25	$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	$6	$6

NOTE 11 - DEPOSITS

The major components of deposits are presented below:

	December 31,	
(in millions)	2016	2015
Demand	$28,472	$27,649
Checking with interest	20,714	17,921
Regular savings	8,964	8,218
Money market accounts	38,176	36,727
Term deposits	13,478	12,024
Total deposits	$109,804	$102,539

The maturity distribution of term deposits as of December 31, 2016 is presented below:

Year	(in millions)
2017	$11,402
2018	1,428
2019	214
2020	325
2021	103
2022 and thereafter	6
Total	$13,478

Of these deposits, the amount of term deposits with a denomination of $100,000 or more was $8.2 billion at December 31, 2016. The remaining maturities of these deposits are presented below:

	(in millions)
Three months or less	$3,531
After three months through six months	1,152
After six months through twelve months	2,671
After twelve months	850
Total term deposits	$8,204

NOTE 12 - BORROWED FUNDS

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

	December 31,	
(in millions)	**2016**	**2015**
Federal funds purchased	$533	$—
Securities sold under agreements to repurchase	615	802
Other short-term borrowed funds (primarily current portion of FHLB advances)	3,211	2,630
Total short-term borrowed funds	$4,359	$3,432

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

	As of and for the Year Ended December 31,		
(dollars in millions)	**2016**	**2015**	**2014**
Weighted-average interest rate at year-end: (1)			
Federal funds purchased and securities sold under agreements to repurchase	0.26%	0.15%	0.14%
Other short-term borrowed funds (primarily current portion of FHLB advances)	0.94	0.44	0.26
Maximum amount outstanding at month-end during the year:			
Federal funds purchased and securities sold under agreements to repurchase (2)	$1,522	$5,375	$7,022
Other short-term borrowed funds (primarily current portion of FHLB advances)	5,461	7,004	7,702
Average amount outstanding during the year:			
Federal funds purchased and securities sold under agreements to repurchase (2)	$947	$3,364	$5,699
Other short-term borrowed funds (primarily current portion of FHLB advances)	3,207	5,865	5,640
Weighted-average interest rate during the year: (1)			
Federal funds purchased and securities sold under agreements to repurchase	0.09%	0.22%	0.12%
Other short-term borrowed funds (primarily current portion of FHLB advances)	0.64	0.28	0.25

(1) Rates exclude certain hedging costs.
(2) Balances are net of certain short-term receivables associated with reverse repurchase agreements.

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

	December 31,	
(in millions)	2016	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)	—	749
2.300% senior unsecured notes, due 2018 (8) (10)	745	747
2.450% senior unsecured notes, due 2019 (8) (11)	747	752
2.500% senior unsecured notes, due 2019 (8)(12)	741	—
2.550% senior unsecured notes, due 2021(8)(13)	965	—
Federal Home Loan advances due through 2033	7,264	5,018
Other	10	25
Total long-term borrowed funds	$12,790	$9,886

(1) These balances are composed of: principal balances of $350 million at December 31, 2016 and 2015, as well as the impact of ($3) million of unamortized deferred issuance costs and discount at December 31, 2016.
(2) Prior to January 1, 2016, interest was payable at a fixed rate per annum of 4.153%.
(3) These balances are composed of: principal balance of $42 million and $333 million at December 31, 2016 and 2015, respectively, as well as the impact from interest rate swaps of zero and ($2) million at December 31, 2016 and 2015, respectively. See Note 16 "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) This subordinated debt was retired in 2016. At December 31, 2015, this balance was composed of a principal balance of $334 million; impact from interest rate swaps of ($3) million at December 31, 2015. See Note 16 "Derivatives" for further information. On July 28, 2016, the Company repurchased $334 million of these securities.
(5) These balances are composed of: principal balances of $250 million at December 31, 2016 and 2015, as well as the impact of ($1) million of unamortized deferred issuance costs and discount at December 31, 2016.
(6) These balances are composed of: principal balances of $750 million at December 31, 2016 and 2015, as well as the impact of ($1) million of unamortized deferred issuance costs and discount at December 31, 2016.
(7) This balance is composed of: principal balance of $350 million at December 31, 2016, as well as the impact of ($2) million of unamortized deferred issuance costs and discount at December 31, 2016.
(8) These securities were offered under CBNA's Global Bank Note Program dated December 1, 2014.
(9) This balance was reclassified to short-term borrowed funds at December 31, 2016. At December 31, 2015 the balance was composed of: principal balances of $750 million; impact from interest rate swaps of ($1) million. See Note 16 "Derivatives" for further information.
(10) These balances are composed of: principal balances of $750 million at December 31, 2016 and 2015; impact from interest rate swaps of ($3) million at December 31, 2016 and 2015; and ($2) million of unamortized deferred issuance costs and discount at December 31, 2016. See Note 16 "Derivatives" for further information.
(11) These balances are composed of: principal balances of $750 million at December 31, 2016 and 2015; impact from interest rate swaps of zero and $2 million at December 31, 2016 and 2015, respectively; and ($3) million of unamortized deferred issuance costs and discount at December 31, 2016. See Note 16 "Derivatives" for further information.
(12) This balance is composed of: principal balance of $750 million at December 31, 2016; impact from interest rate swaps of ($7) million and ($2) million of unamortized deferred issuance costs and discount at December 31, 2016. See Note 16 "Derivatives" for further information.
(13) This balance is composed of: principal balance of $1.0 billion at December 31, 2016; impact from interest rate swaps of ($30) million and ($5) million of unamortized deferred issuance costs and discount at December 31, 2016. See Note 16 "Derivatives" for further information.

On March 14, 2016, the Company issued $750 million of CBNA 2.500% fixed-rate senior notes due in 2019, and on May 13, 2016, the Company also issued $1.0 billion of CBNA 2.550% fixed-rate senior notes due in 2021. 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. On March 7, 2016, the Company repurchased $125 million of its 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 $13.4 billion and $11.3 billion at December 31, 2016 and 2015, respectively. The Company's available FHLB borrowing capacity was $2.8 billion and $4.1 billion at December 31, 2016 and 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, is pledged to provide borrowing capacity at the FRB. At December 31, 2016, the Company's unused secured borrowing capacity was approximately $33.6 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 December 31, 2016 is presented below:

(in millions)	CFG Parent Company	Banking Subsidiaries	Consolidated
Year			
2017 or on demand	$—	$—	$—
2018	—	8,000	8,000
2019	—	1,489	1,489
2020	—	2	2
2021	348	970	1,318
2022 and thereafter	1,970	11	1,981
Total	$2,318	$10,472	$12,790

NOTE 13 - 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 December 31, 2016 and 2015. 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 year ended December 31, 2016, as part of its 2016 CCAR plan, the Company paid $430 million to repurchase 17,332,684 common shares at an average price of $24.81; $405 million was recorded in treasury stock and $25 million was recorded in additional paid in capital. The repurchased shares are held in treasury stock. During the year ended December 31, 2016, the Company recorded no shares of treasury stock associated with share-based compensation plan activity. During the year ended December 31, 2015, the Company recorded 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 stock.

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 stock.

NOTE 14 - EMPLOYEE BENEFITS

Pension Plans

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

The qualified plan's allocation by asset category is presented below:

	Target Asset Allocation	Actual Asset Allocation	
Asset Category	**2016**	**2016**	**2015**
Equity securities	45-55%	49.6%	47.1%
Debt securities	40-50%	45.2%	47.3%
Other	0-10%	5.2%	5.6%
Total		100.0%	100.0%

The written Pension Plan Investment Policy, set forth by the CFG Retirement Committee, formulates investment principles and guidelines that are appropriate for the needs and objectives of the Plan, and defines the management, structure, and monitoring procedures adopted for the ongoing operation of the aggregate funds of the Plan. Stated goals and objectives are:

- Total return, consistent with prudent investment management, is the primary goal of the Plan. The nominal rate of return objective should meet or exceed the actuarial rate return target. In addition, assets of the Plan shall be invested to ensure that principal is preserved and enhanced over time;
- The total return for the overall Plan shall meet or exceed the Plan's Policy Index;
- Total portfolio risk exposure should generally rank in the mid-range of comparable funds. Risk-adjusted returns are expected to consistently rank in the top-half of comparable funds; and
- Investment managers shall exceed the return of the designated benchmark index and rank in the top-half of the appropriate asset class and style universe.

The CFG Retirement Committee reviews, at least annually, the assets and net cash flow of the Plan, discusses the current economic outlook and the Plan's investment strategy with the investment managers, reviews the current asset mix and its compliance with the Policy, and receives and considers statistics on the investment performance of the Plan.

The equity investment mandates follows a global equity approach. Investments are made in broadly diversified portfolios that contain investments in U.S. and non-U.S. developed and developing economies. The fixed income investment mandates are US investment grade mandates and follow a long duration investment approach. Investment in high-yield bonds are not allowed unless an investment grade bond is downgraded to a non-investment grade category.

The assets of the qualified plan may be invested in any or all of the following asset categories:

- Equity-oriented investments:
  - domestic and foreign common and preferred stocks, and related rights, warrants, convertible debentures, and other common share equivalents
- Fixed income-oriented investments:
  - domestic and foreign bonds, debentures and notes
  - mortgages
  - mortgage-backed securities
  - asset-backed securities
  - money market securities or cash
  - financial futures and options on financial futures
  - forward contracts

In addition, derivatives may be employed under the guidelines established for individual managers in order to manage risk exposures and/or to increase the efficiency of strategies. The extent to which derivatives are utilized will be specified in the investment guidelines for each manager. The Plan will not be exposed to losses through derivatives that exceed the capital invested.

In selecting the expected long-term rate of return on assets, the Company considers the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of this Plan. This includes considering the trust's asset allocation and the expected returns likely to be earned over the life of the Plan. This basis is consistent with the prior year.

Changes in the fair value of defined benefit pension plan assets, projected benefit obligation, funded status, and accumulated benefit obligation are presented below:

	Year Ended December 31,			
	Qualified Plan		Non-Qualified Plan	
(in millions)	2016	2015	2016	2015
Fair value of plan assets as of January 1	$917	$923	$—	$—
Actual return (loss) on plan assets	82	(41)	—	—
Employer contributions	75	100	8	9
Benefits and administrative expenses paid	(59)	(65)	(8)	(9)
Fair value of plan assets as of December 31	1,015	917	—	—
Projected benefit obligation	1,024	977	105	103
Pension obligation	($9)	($60)	($105)	($103)
Accumulated benefit obligation	$1,024	$977	$105	$103

We recognized net actuarial losses (for the qualified and non-qualified plans) in AOCI resulting in an ending balance of $634 million and $599 million at December 31, 2016 and 2015, respectively. Approximately $18 million of net actuarial loss recorded in AOCI as of December 31, 2016 is expected to be recognized as a component of net periodic benefit costs during 2017.

Other changes in plan assets and benefit obligations recognized in OCI are presented below:

	Year Ended December 31,		
(in millions)	2016	2015	2014
Net periodic pension income	($1)	($7)	($8)
Net actuarial loss	54	7	237
Amortization of prior service credit	1	—	—
Amortization of net actuarial loss	(16)	(15)	(10)
Divestiture	—	—	(35)
Total recognized in other comprehensive income (loss)	39	(8)	192
Total recognized in net periodic pension cost and other comprehensive income (loss)	$38	($15)	$184

The components of net periodic pension (income) cost for the Company's qualified and non-qualified plans are presented below:

	Year Ended December 31,								
	Qualified Plan			Non-Qualified Plan			Total		
(in millions)	2016	2015	2014	2016	2015	2014	2016	2015	2014
Service cost	$3	$3	$3	$—	$—	$—	$3	$3	$3
Interest cost	44	44	47	4	4	5	48	48	52
Expected return on plan assets	(68)	(74)	(73)	—	—	—	(68)	(74)	(73)
Amortization of actuarial loss	14	13	9	2	2	1	16	15	10
Net periodic pension (income) cost	($7)	($14)	($14)	$6	$6	$6	($1)	($8)	($8)

Weighted-average rates assumed in determining the actuarial present value of benefit obligations and net periodic benefit cost are presented below:

	As of and for the Year Ended December 31,		
	2016	2015	2014
Assumptions for benefit obligations			
Discount rate-qualified plan	4.190%	4.640%	4.125%
Discount rate-non-qualified plan	4.050%	4.540%	3.875%
Expected long-term rate of return on plan assets	7.500%	7.500%	7.500%
Assumptions for net periodic pension cost			
Discount rate-qualified plan	4.640%	4.125%	5.00/4.25% (1)
Discount rate-non-qualified plan	4.540%	3.875%	4.75/4.00% (2)
Expected long-term rate of return on plan assets	7.500%	7.500%	7.500%

(1) 5.00% for January 1 - August 31, 2014 period; 4.25% for September 1 - December 31, 2014 period.
(2) 4.75% for January 1 - August 31, 2014 period; 4.00% for September 1 - December 31, 2014 period.

On September 7, 2016, the Company made a contribution of $75 million to the qualified plan. The Company expects to contribute $8 million to the non-qualified plan in 2017. No contribution to the qualified plan is expected in 2017.

Expected future benefit payments for the qualified and non-qualified plans are presented below:

	(in millions)
Expected benefit payments by fiscal year ended	
December 31, 2017	$62
December 31, 2018	63
December 31, 2019	63
December 31, 2020	64
December 31, 2021	66
December 31, 2022 - 2026	339

Fair Value Measurements

The following valuation techniques are used to measure the qualified pension plan assets at fair value:

Cash and money market funds:

Cash and money market funds represent instruments that generally mature in one year or less and are valued at cost, which approximates fair value. Cash and money market funds are classified as Level 2.

U.S. government obligations, municipal obligations, corporate bonds, asset-backed securities and mortgage-backed securities-Managed portfolio:

U.S. government obligations, municipal obligations, corporate bonds, asset-backed securities and mortgage-backed securities are valued at the quoted market prices determined in the active markets in which the securities are traded. 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 investments are classified as Level 2, because they currently trade in active markets for similar securities and the inputs to the valuations are observable.

The following table presents qualified pension plan assets measured at fair value within the fair value hierarchy:

	Fair Value Measurements as of December 31, 2016			
(in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash and money market funds	$—	$—	$—	$—
Managed portfolio assets:				
Cash and money market funds	2	—	2	—
U.S. government obligations	10	—	10	—
Municipal obligations	2	—	2	—
Corporate bonds	89	—	89	—
Asset-backed securities	1	—	1	—
Total assets in the fair value hierarchy	104	—	104	—
Investments measured at net asset value [1]	918			
Assets at fair value at measurement date of December 31, 2016	$1,022	$—	$104	$—

[1]Certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

The following table presents qualified pension plan assets and liabilities measured at fair value within the fair value hierarchy:

	Fair Value Measurements as of December 31, 2015			
(in millions)	Total	Level 1	Level 2	Level 3
Assets:				
Cash and money market funds	$4	$—	$4	$—
Mutual funds				
International equity funds	47	47	—	—
Managed portfolio assets				
Cash and money market funds	4	—	4	—
U.S. government obligations	35	—	35	—
Municipal obligations	1	—	1	—
Corporate bonds	84	—	84	—
Asset-backed securities	5	—	5	—
Mortgage-backed securities	1	—	1	—
Derivative assets - interest rate forwards	1	—	1	—
Total assets in the fair value hierarchy	182	47	135	—
Investments measured at net asset value	767			
Assets at fair value at measurement date of December 31, 2015	$949	$47	$135	$—
Liabilities:				
Managed portfolio liabilities:				
Derivative liabilities - interest rate forwards	$1	$—	$1	$—
Derivative liabilities - credit default swaps	1	—	1	—
Total liabilities measured at fair value	$2	$—	$2	$—

There were no transfers among Levels 1, 2 or 3 during the years ended December 31, 2016, and 2015. The fair values of participation units held in the common and collective funds and limited partnerships are based on NAV.

The following table presents the unfunded commitments, redemption frequency and redemption notice period for Plan investments that utilize net asset value to determine fair value:

	Fair Value Estimated Using Net Asset Value per Share December 31,					
Investment (dollars in millions)	**2016**	**2015**	**Unfunded Commitment**	**Redemption Frequency**	**Redemption Restrictions**	**Redemption Notice Period**
Liquid Cash Fund	$9	$—	$—	Daily	None	Same day before 5:30pm ET
Equity Mutual Fund[1]	40	9	—	Daily	None	7 days
Common and Collective Funds:						
Global equities funds	386	220	—	Daily	None	3 days
Balanced funds	193	196	—	Daily	None	2 days
Fixed income fund	133	120	—	Daily	None	3 days
Managed Portfolio - Fixed Income Mutual Fund [2]	30	20	—	Daily	None	1 days
Limited Partnerships:						
International equity fund	117	107	—	Monthly	None	3 days
International equity	—	95	—	Daily	None	10 days
Offshore feeder fund	10	—	—	Monthly	None	14 days
Total	$918	$767	$—			

[1] The equity mutual fund seeks to offer participants capital appreciation by primarily investing in common stocks via investments in several underlying funds of the same fund family. The principal investment objective is to generate positive total return.
[2] The managed portfolio fixed income mutual fund seeks to outperform the Barclay's U.S. Long Credit Index or similar benchmark.

Postretirement Benefits

The Company provides health care insurance benefits to eligible retirees and their spouses through age 65, at which time Medicare becomes the primary coverage provider.

Employees enrolled in medical coverage immediately prior to retirement and meeting eligibility requirements can elect retiree medical coverage. Coverage must be elected at the time of retirement and cannot be elected at a future date. Spouses may be covered only if the spouse is covered at the time of the employee's retirement.

The Company reviews coverage on an annual basis and reserves the right to modify or cancel coverage at any renewal date. Effective July 1, 2014, the Company utilizes a private health care exchange to provide medical and dental benefits to current and future Medicare-eligible plan participants. The Company provides a fixed subsidy to a small, closed group of retirees and spouses based on the subsidy levels prior to July 1, 2014; retirees and spouses pay the cost of benefits in excess of the fixed subsidy.

Expected future benefit payments for the postretirement benefit plan are presented below:

	(in millions)
Expected benefit payments by fiscal year ended	
December 31, 2017	$2
December 31, 2018	2
December 31, 2019	1
December 31, 2020	1
December 31, 2021	1
December 31, 2022 - 2026	6

The Company expects to contribute $2 million to the plan during 2017.

The discount rate assumed in determining the actuarial present value of benefit obligations was 3.53% as of December 31, 2016 compared with 3.93% as of December 31, 2015.

For measurement purposes, the assumed annual rate of increase in the per capita cost of covered health care benefits was 7% in December 31, 2016 and 2015, and is expected to decrease gradually to 5.0% by 2022.

Weighted-average rates assumed in determining the net periodic benefit cost of the postretirement benefits plan are as follows:

	For the Year Ended December 31,	
(dollars in millions)	2016	2015
Discount rate	3.930%	3.500%
Rate of compensation increase	N/A	N/A
Ultimate health care cost trend rate	5.000%	5.000%
Effect on accumulated postretirement benefit obligation:		
One percent increase in assumed health care cost trend	$—	$—
One percent decrease in assumed health care cost trend	—	—

401(k) Plan

The Company sponsors a 401(k) plan under which employee tax-deferred/Roth after-tax contributions to the plan are matched by the Company after completion of one year of service. Effective January 1, 2013, contributions were matched at 100% up to an overall limitation of 5% on a pay period basis. Subsequently, effective January 1, 2015, 100% of matching contributions was reduced from 5% to 4% on a pay period basis. Substantially all employees will receive an additional 2% of earnings after completion of one year of service, subject to limits set by the Internal Revenue Service. Amounts contributed and expensed by the Company were $55 million in 2016 compared to $52 million in 2015 and $60 million in 2014.

NOTE 15 - INCOME TAXES

Total income tax expense is presented below:

	Year Ended December 31,		
(in millions)	2016	2015	2014
Income tax expense	$489	$423	$403
Tax effect of changes in OCI	(168)	(12)	154
Total comprehensive income tax expense	$321	$411	$557

Components of income tax expense are presented below:

(in millions)	Current	Deferred	Total
Year Ended December 31, 2016			
U.S. federal	$292	$159	$451
State and local	44	(6)	38
Total	$336	$153	$489
Year Ended December 31, 2015			
U.S. federal	$162	$225	$387
State and local	12	24	36
Total	$174	$249	$423
Year Ended December 31, 2014			
U.S. federal	$224	$145	$369
State and local	38	(4)	34
Total	$262	$141	$403

The effective income tax rate differed from the U.S. federal income tax rate of 35% in 2016, 2015 and 2014 as presented below:

	Year Ended December 31,					
	2016		2015		2014	
(dollars in millions)	Amount	Rate	Amount	Rate	Amount	Rate
U.S. Federal income tax expense and tax rate	$537	35.0%	$442	35.0%	$444	35.0%
Increase (decrease) resulting from:						
State and local income taxes (net of federal benefit)	38	2.5	27	2.1	22	1.7
Bank-owned life insurance	(19)	(1.2)	(20)	(1.6)	(17)	(1.3)
Tax-exempt interest	(19)	(1.3)	(17)	(1.3)	(15)	(1.2)
Tax advantaged investments (including related credits)	(31)	(2.0)	(16)	(1.2)	(27)	(2.1)
Other tax credits	(14)	(0.9)	—	—	—	—
Non-deductible expenses	—	—	8	0.6	—	—
Other	(3)	(0.2)	(1)	(0.1)	(4)	(0.3)
Total income tax expense and tax rate	$489	31.9%	$423	33.5%	$403	31.8%

The decrease in the effective tax rate from 2015 to 2016 is primarily attributable to the benefits of federal and state tax credits.

The effective income tax rate for the year ended December 31, 2015 reflected the adoption of ASU No. 2014-01, “Accounting for Investments in Qualified Affordable Housing Projects.” The application of this guidance, which began on January 1, 2015, resulted in the reclassification of the amortization of these investments to income tax expense from noninterest income. See Note 6 “Variable Interest Entities,” for further information.

The increase in the effective tax rate from 2014 to 2015 is primarily attributable to the Company’s adoption of ASU 2014-01. Additionally, the 2015 effective tax rate was affected by the impact of non-deductible permanent expense items incurred by the Company in 2015.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	December 31,	
(in millions)	2016	2015
Deferred tax assets:		
Other comprehensive income	$409	$241
Allowance for credit losses	471	465
State net operating loss carryforwards	75	137
Accrued expenses not currently deductible	129	135
Investment and other tax credit carryforwards	52	—
Deferred income	22	40
Fair value adjustments	40	36
Other	—	5
Total deferred tax assets	1,198	1,059
Valuation allowance	(107)	(123)
Deferred tax assets, net of valuation allowance	1,091	936
Deferred tax liabilities:		
Leasing transactions	881	882
Amortization of intangibles	522	455
Depreciation	234	213
Pension and other employee compensation plans	103	69
MSRs	49	47
Other	16	—
Total deferred tax liabilities	1,805	1,666
Net deferred tax liability	$714	$730

At December 31, 2016, the Company had state tax net operating loss carryforwards of $1.4 billion. Limitations on the ability to realize these carryforwards are reflected in the associated valuation allowance.

At December 31, 2016, the Company had a valuation allowance of $107 million against various deferred tax assets related to state net operating losses and state tax credits, as it is management's current assessment that it is more likely than not that the Company will not recognize a portion of the deferred tax asset related to these items. The valuation allowance decreased $16 million during the year ended December 31, 2016.

Effective with the fiscal year ended September 30, 1997, the reserve method for bad debts was no longer permitted for tax purposes. The repeal of the reserve method required the recapture of the reserve balance in excess of certain base year reserve amounts attributable to years ended prior to 1988. At December 31, 2016, the Company's base year loan loss reserves attributable to years ended prior to 1988, for which no deferred income taxes have been provided, was $557 million. This base year reserve may become taxable if certain distributions are made with respect to the stock of the Company or if the Company ceases to qualify as a bank for tax purposes. No actions are planned that would cause this reserve to become wholly or partially taxable.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal or state and local income tax examinations by major tax authorities for years before 2013.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is presented below:

	December 31,		
(in millions)	2016	2015	2014
Balance at the beginning of the year	$62	$72	$33
Gross decrease for tax positions related to prior years	(19)	(6)	—
Gross increase for tax positions related to prior years	1	—	60
Decreases for tax positions as a result of the lapse of the statutes of limitations	(2)	(3)	(1)
Decreases for tax positions related to settlements with taxing authorities	—	(1)	(20)
Balance at end of year	$42	$62	$72

Included in the total amount of unrecognized tax benefits at December 31, 2016, are potential benefits of $29 million that, if recognized, would impact the effective tax rate.

The Company classifies interest and penalties related to unrecognized tax benefits as a component of income taxes. The Company accrued $8 million, less than $1 million, and $1 million of interest expense through December 31, 2016, 2015, and 2014, respectively. The Company had approximately $22 million, $14 million, and $15 million accrued for the payment of interest at December 31, 2016, 2015, and 2014, respectively. There were no amounts accrued for penalties as of December 31, 2016, 2015, and 2014, and there were no penalties recognized during 2016, 2015, and 2014.

NOTE 16 - DERIVATIVES

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

The Company's derivative instruments are recognized on the Consolidated Balance Sheets at fair value. Information regarding the valuation methodology and inputs used to estimate the fair value of the Company's derivative instruments is described in Note 19 "Fair Value Measurements."

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

	December 31, 2016			December 31, 2015		
(in millions)	Notional Amount [1]	Derivative Assets	Derivative Liabilities	Notional Amount [1]	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate contracts	$13,350	$52	$193	$16,750	$96	$50
Derivatives not designated as hedging instruments:						
Interest rate contracts	54,656	557	452	33,719	540	455
Foreign exchange contracts	8,039	134	126	8,366	163	156
Other contracts	1,498	16	7	981	8	5
Total derivatives not designated as hedging instruments		707	585		711	616
Gross derivative fair values		759	778		807	666
Less: Gross amounts offset in the Consolidated Balance Sheets [2]		(106)	(106)		(178)	(178)
Less: Cash collateral applied [2]		(26)	(13)		(4)	(3)
Total net derivative fair values presented in the Consolidated Balance Sheets [3]		$627	$659		$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 3 "Securities" for further information.

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

Institutional derivatives

The institutional derivatives portfolio primarily consists of interest rate swap agreements that are used to hedge the interest rate risk associated with the Company's loans and financing liabilities (i.e., borrowed funds, deposits, etc.). The goal of the Company's interest rate hedging activity 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 our 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 has entered into interest rate swap agreements to manage the interest rate exposure on its medium term borrowings. The change in value of fair value hedges, to the extent that the hedging relationship is effective, is recorded through earnings and offset against the change in the fair value of the hedged item.

The following table presents the effect of fair value hedges on other income:

The Effect of Fair Value Hedges on Other Income

	Amounts Recognized in Other Income for the Year Ended December 31,								
	2016			2015			2014		
(in millions)	Derivative	Hedged Item	Hedge Ineffectiveness	Derivative	Hedged Item	Hedge Ineffectiveness	Derivative	Hedged Item	Hedge Ineffectiveness
Hedges of interest rate risk on borrowings using interest rate swaps	($6)	$5	($1)	($2)	$2	$—	($4)	$4	$—

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 is 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 $2 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.

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

	Amounts Recognized for the Year Ended December 31,		
(in millions)	2016	2015	2014
Effective portion of (loss) gain recognized in OCI (1)	($100)	$150	$334
Amounts reclassified from OCI to interest income (2)	90	82	72
Amounts reclassified from OCI to interest expense (2)	(27)	(59)	(99)
Amounts reclassified from OCI to other income (3)	(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 amount includes both (a) the amortization of effective gains and losses associated with the Company's terminated cash flow hedges and (b) the current reporting period's interest settlements realized on the Company's active cash flow hedges. Both (a) and (b) were previously included on the accumulated other comprehensive loss line item on the Consolidated Balance Sheets and were subsequently recorded as adjustments to the interest expense of the underlying hedged item.
(3) This 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 designed 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 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 noninterest income:

	Amounts Recognized in Noninterest Income for the Year Ended December 31,		
(in millions)	2016	2015	2014
Customer derivative contracts			
Customer interest rate contracts [1]	($23)	$140	$240
Customer foreign exchange contracts [2]	(81)	(18)	(59)
Residential loan commitments [3]	(2)	(4)	6
Economic hedges			
Offsetting derivatives transactions to hedge interest rate risk on customer interest rate contracts [1]	70	(106)	(209)
Offsetting derivatives transactions to hedge foreign exchange risk on customer foreign exchange contracts [2]	95	19	58
Forward sale contracts [3]	6	1	(3)
Total	$65	$32	$33

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

NOTE 17 - COMMITMENTS AND CONTINGENCIES

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

	December 31,	
(in millions)	2016	2015
Commitment amount:		
Undrawn commitments to extend credit	$60,872	$56,524
Financial standby letters of credit	1,892	2,010
Performance letters of credit	40	42
Commercial letters of credit	43	87
Marketing rights	44	47
Risk participation agreements	19	26
Residential mortgage loans sold with recourse	8	10
Total	$62,918	$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 $3 million at December 31, 2016 and 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 years ended December 31, 2016 and 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 of December 31, 2016 and 2015 is $19 million and $26 million, respectively. The current amount of credit exposure is spread out over 93 counterparties. RPAs generally have terms ranging from one-five years; however, certain outstanding agreements have terms as long as ten years.

Residential Loans Sold with Recourse

The Company is an originator and servicer of residential mortgages and routinely sells such mortgage loans in the secondary market and to government-sponsored entities. In the context of such sales, the Company makes certain representations and warranties regarding the characteristics of the underlying loans and, as a result, may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of those representations and warranties.

Other Commitments

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 $127 million and $177 million at December 31, 2016, 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 19 "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 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, the Company and its banking subsidiaries are currently subject to consent orders issued in 2015 by certain of their regulators in connection with past deposit reconciliation and billing practices, under which the applicable regulators have provided non-objections to, among other things, restitution plans for affected customers. All financial penalties associated with these regulatory enforcement matters have been paid, and substantially all remediation related to such legacy matters was resolved as of December 31, 2016.

NOTE 18 - DIVESTITURES

There were no branch-related divestitures of assets and liabilities during 2016 and 2015.

On June 20, 2014, the Company completed the sale of certain assets and liabilities associated with the Chicago-area retail branches, small business relationships and select middle market relationships to U.S. Bancorp. The agreement to sell these assets and liabilities to U.S. Bancorp had previously been announced in January 2014. This sale included 103 retail branches located in Illinois, including certain customer deposits of $4.8 billion and selected loans of $1.0 billion (primarily middle market, small business, home equity and credit card balances). As a result of this transaction, the Company recorded a gain on sale of $288 million consisting of $286 million related to the deposits, a gain on sale of $11 million related to the loans and a $9 million loss on sale of other branch assets. For the year ended December 31, 2014, the corresponding interest and fees on these loans was $20 million and interest expense on deposits was $4 million. There was no impact on the Consolidated Statements of Operations for the years ended December 31, 2015 and 2016 as a result of this transaction.

NOTE 19 - FAIR VALUE MEASUREMENTS

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

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 fees of ($5) million, ($2) million, and $5 million for the years ended December 31, 2016, 2015 and 2014, 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.

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 December 31, 2016. 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 17 "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 $4 million, $3 million and $1 million for the years ended December 31, 2016, 2015 and 2014, respectively, in other noninterest income related to its commercial trading portfolio.

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:

	December 31, 2016			December 31, 2015		
(in millions)	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	$504	$505	($1)	$268	$263	$5
Commercial and commercial real estate loans held for sale, at fair value	79	79	—	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 under the market or income approach using pricing models. 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 under the market approach 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 specified pool mortgage "pass-through" securities and other debt securities issued by U.S. government-sponsored entities and state and political subdivisions. The pricing models used to value securities under the income approach generally begin with the contractual cash flows of each security and make adjustments based on forecasted prepayment speeds, default rates, and other market-observable information. The adjusted cash flows are then discounted at a rate derived from observed rates of return for comparable assets or liabilities that are traded in the market. Classes of instruments that are valued using this market approach include residential and commercial CMOs.

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. The 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.

The following table presents assets and liabilities measured at fair value, including gross derivative assets and liabilities on a recurring basis at December 31, 2016:

(in millions)	Total	Level 1	Level 2	Level 3
Securities available for sale:				
Mortgage-backed securities	$19,446	$—	$19,446	$—
State and political subdivisions	8	—	8	—
Equity securities	17	—	17	—
U.S. Treasury and other	30	30	—	—
Total securities available for sale	19,501	30	19,471	—
Loans held for sale, at fair value:				
Residential loans held for sale	504	—	504	—
Commercial loans held for sale	79	—	79	—
Total loans held for sale, at fair value	583	—	583	—
Derivative assets:				
Interest rate swaps	609	—	609	—
Foreign exchange contracts	134	—	134	—
Other contracts	16	—	16	—
Total derivative assets	759	—	759	—
Other investment securities, at fair value:				
Money market mutual fund	91	91	—	—
Other investments	5	—	5	—
Total other investment securities, at fair value	96	91	5	—
Total assets	$20,939	$121	$20,818	$—
Derivative liabilities:				
Interest rate swaps	$645	$—	$645	$—
Foreign exchange contracts	126	—	126	—
Other contracts	7	—	7	—
Total derivative liabilities	778	—	778	—
Total liabilities	$778	$—	$778	$—

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:

	Year Ended December 31,		
(in millions)	2016	2015	2014
Beginning of year balance	$—	$5	$5
Purchases, issuances, sales and settlements	—	—	—
Net (losses) gains	—	—	—
Transfers from Level 3 to Level 2	—	(5)	—
End of year balance	$—	$—	$5
Net unrealized gain (loss) included in net income for the year relating to assets held at year 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.

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, which used assumptions, including weighted-average life, weighted-average constant prepayment rate and weighted-average discount rate. Refer to Note 1 "Significant Accounting Policies" and Note 10 "Mortgage Banking" for more information.

Foreclosed assets

Foreclosed assets consist primarily of residential properties. Foreclosed assets are carried at the lower of cost 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.

Leased Assets

The fair value of assets under operating leases is determined using collateral specific pricing digests, external appraisals, broker opinions, recent sales data from industry equipment dealers, and discounted cash flows derived from the underlying lease agreement. As market data for similar assets and lease agreements is available and used in the valuation, these assets are classified as Level 2 fair value measurement.

The following table presents gains (losses) on assets and liabilities measured at fair value on a nonrecurring basis and recorded in earnings:

	Year Ended December 31,		
(in millions)	2016	2015	2014
Impaired collateral-dependent loans	($33)	($32)	($101)
MSRs	4	9	5
Foreclosed assets	(3)	(3)	(3)
Leased assets	11	—	—

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

	December 31, 2016				December 31, 2015			
(in millions)	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Impaired collateral-dependent loans	$355	$—	$355	$—	$60	$—	$60	$—
MSRs	182	—	—	182	178	—	—	178
Foreclosed assets	44	—	44	—	42	—	42	—
Leased assets	158	—	158	—	—	—	—	—

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 values of securities classified as HTM are estimated under the market or income approach using the same pricing models as those used to measure the fair value of the Company's securities AFS. For more information, see "Recurring Fair Value Measurements — Securities Available for Sale," within this Note.

Other investment securities, at cost

The cost basis of other investment securities, at cost, such as FHLB stock and FRB stock, is assumed to approximate the fair value of these 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. The stock may only be sold or redeemed at par, and therefore the cost basis represents the best estimate of fair value.

Loans and leases

For loans and leases not recorded at fair value on a recurring basis or 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. When applicable, the fair value of other loans held for sale is estimated using one of two methods: a discounted cash flow method or a securitization method (as described above).

Deposits

The fair value of demand deposits, checking with interest accounts, regular savings, money market accounts, and other deposits 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 estimated fair value for financial instruments not recorded at fair value in the Consolidated Financial Statements. The carrying amounts are recorded in the Consolidated Balance Sheets under the indicated captions:

	December 31, 2016							
	Total		Level 1		Level 2		Level 3	
(in millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:								
Securities held to maturity	$5,071	$5,058	$—	$—	$5,071	$5,058	$—	$—
Other investment securities, at cost	942	942	—	—	942	942	—	—
Other loans held for sale	42	42	—	—	—	—	42	42
Loans and leases	107,669	107,537	—	—	355	355	107,314	107,182
Financial Liabilities:								
Deposits	109,804	109,796	—	—	109,804	109,796	—	—
Federal funds purchased and securities sold under agreements to repurchase	1,148	1,148	—	—	1,148	1,148	—	—
Other short-term borrowed funds	3,211	3,211	—	—	3,211	3,211	—	—
Long-term borrowed funds	12,790	12,849	—	—	12,790	12,849	—	—

	December 31, 2015							
	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	$5,258	$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 20 - 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 U.S. Basel III capital framework the Company and its banking subsidiaries must meet specific minimum requirements for the following ratios: (1) common equity tier 1 capital; (2) tier 1 capital; (3) total capital; and (4) tier 1 leverage. In addition, the Company must not be subject to a written agreement, order or capital directive with any of its regulators. Failure to meet minimum capital requirements can result in the initiation of certain actions that, if undertaken, could have a material effect on the Company's Consolidated Financial Statements.

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

	Transitional Basel III					
					FDIA Requirements	
	Actual		Minimum Capital Adequacy		Classification as Well-capitalized[(6)]	
(dollars in millions)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
Common equity tier 1 capital [(1) (5)]	$13,822	11.2%	$6,348	5.125%	$8,051	6.5%
Tier 1 capital [(2) (5)]	14,069	11.4	8,206	6.625	9,909	8.0
Total capital [(3)(5)]	17,347	14.0	10,683	8.625	12,386	10.0
Tier 1 leverage [(4)]	14,069	9.9	5,667	4.000	7,084	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 capital 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%.
(6) Presented for informational purposes. Prompt corrective action provisions apply only to insured depository institutions-in our case CBNA and CBPA.

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 quarterly common dividends of $0.12 per share through the end of 2016, a 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 future 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.

On January 30, 2017, the FRB published a final rule that modifies the CCAR Capital Plan and stress test rules. Under the final rule, the Company continues to be classified as a large non-complex firm, with total consolidated assets of at least $50 billion but less than $250 billion and nonbank assets of less than $75 billion. As such, the FRB may no longer object to our capital plans on qualitative grounds beginning with the 2017 CCAR and DFAST cycle. Assessment of the Company's capital planning processes is now incorporated into regular ongoing supervisory activities. The Company remains subject to assessment of its ability to meet capital requirements under stress.

For the year ended December 31, 2016, the Company paid total common dividends of $241 million, repurchased 17.3 million shares of its common stock and $625 million of qualified subordinated notes, compared to $214 million in common dividends paid, repurchase of 20.1 million shares and $750 million of qualified subordinated notes for the year ended December 31, 2015. Additionally, for the year ended December 31, 2016, the Company paid total preferred dividends of $14 million, compared to $7 million in the year ended December 31, 2015.

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.

A financial subsidiary of a national bank 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. On March 13, 2014, the OCC determined that CBNA no longer met the conditions to own a financial subsidiary - namely that CBNA must be both well capitalized and well managed. CBNA entered into an agreement with the OCC pursuant to which it has developed and submitted to the OCC a remediation plan setting forth the specific actions it will take to bring itself back into compliance with the conditions to own a financial subsidiary. CBNA has completed its undertakings under the plan, which have been validated by the Company's internal audit team and submitted to the OCC for review and approval. However, until the plan has been approved by the OCC, CBNA will be subject to restrictions on its ability to acquire control or hold an interest in any new financial subsidiary and to commence new activities in any existing financial subsidiary without the prior consent of the OCC.

NOTE 21 - EXIT COSTS AND RESTRUCTURING RESERVES

The Company incurred no restructuring costs for the year ended December 31, 2016. For the year ended December 31, 2015, the Company incurred $26 million of restructuring costs, consisting of $17 million of facilities costs in occupancy, $8 million in outside services, and $1 million in salaries and employee benefits, relating to restructuring initiatives designed to enhance operating efficiencies and reduce expense growth. In 2014, the Company began the implementation of a restructuring initiative designed to achieve operating efficiencies and reduce expense growth. For the year ended December 31, 2014, the Company incurred $101 million of restructuring costs related to these initiatives, including $41 million of salaries and employee benefits, $18 million of facilities costs (including $6 million of building impairment) in occupancy, $24 million in outside services, $6 million in software expense reported in amortization of software, and $12 million in other operating expenses.

Also in 2014, as a result of the sale of retail branches located in Illinois, the Company incurred total costs of approximately $17 million for the year ended December 31, 2014, consisting of $3 million of employee compensation reported in salaries and employee benefits, $3 million of fixed asset expenses reported in equipment, $4 million in outside services and $7 million in other operating expenses.

For segment reporting, all of these restructuring costs are reported within Other. See Note 23 "Business Segments" for further information.

The following tables present the activity in the exit costs and restructuring reserves recognized in other liabilities in the Consolidated Balance Sheets:

(in millions)	Salaries & Employee Benefits	Occupancy & Equipment	Other	Total
Reserve balance as of January 1, 2014	$2	$24	$—	$26
Additions	43	24	57	124
Reversals	(1)	(5)	(4)	(10)
Utilization	(21)	(25)	(50)	(96)
Reserve balance as of December 31, 2014	23	18	3	44
Additions	5	18	8	31
Reversals	(4)	(1)	—	(5)
Utilization	(12)	(19)	(6)	(37)
Reserve balance as of December 31, 2015	12	16	5	33
Additions	2	—	—	2
Reversals	(2)	—	—	(2)
Utilization	(11)	(7)	(5)	(23)
Reserve balance as of December 31, 2016	$1	$9	$—	$10

NOTE 22 - RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in the balances, net of income taxes, of each component of AOCI:

(in millions)	Net Unrealized (Losses) Gains on Derivatives	Net Unrealized (Losses) Gains on Securities	Employee Benefit Plans	Total AOCI
Balance at January 1, 2014	($298)	($91)	($259)	($648)
Other comprehensive income before reclassifications	212	198	—	410
Other-than-temporary impairment not recognized in earnings on securities	—	(22)	—	(22)
Amounts reclassified from other comprehensive income	17	(11)	(118)	(112)
Net other comprehensive income	229	165	(118)	276
Balance at December 31, 2014	($69)	$74	($377)	($372)
Other comprehensive income before reclassifications	93	(66)	—	27
Other-than-temporary impairment not recognized in earnings on securities	—	(22)	—	(22)
Amounts reclassified from other comprehensive income	(14)	(14)	8	(20)
Net other comprehensive income (loss)	79	(102)	8	(15)
Balance at December 31, 2015	$10	($28)	($369)	($387)
Other comprehensive income before reclassifications	(62)	(139)	—	(201)
Other-than-temporary impairment not recognized in earnings on securities	—	(17)	—	(17)
Amounts reclassified from other comprehensive income	(36)	(2)	(25)	(63)
Net other comprehensive loss	(98)	(158)	(25)	(281)
Balance at December 31, 2016	($88)	($186)	($394)	($668)

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

(in millions)	Year Ended December 31, 2016	2015	2014	
Details about AOCI Components				**Affected Line Item in the Consolidated Statements of Operations**
Reclassification adjustment for net derivative gains (losses) included in net income:	$90	$82	$72	Interest income
	(27)	(59)	(99)	Interest expense
	(5)	—	—	Other income
	58	23	(27)	Income before income tax expense
	22	9	(10)	Income tax expense
	$36	$14	($17)	Net income
Reclassification of net securities gains (losses) to net income:	$16	$29	$28	Securities gains, net
	(12)	(7)	(10)	Net securities impairment losses recognized in earnings
	4	22	18	Income before income tax expense
	2	8	7	Income tax expense
	$2	$14	$11	Net income
Reclassification of changes related to employee benefit plans:	$39	($8)	$192	Salaries and employee benefits
	39	(8)	192	Income before income tax expense
	14	—	74	Income tax expense
	$25	($8)	$118	Net income
Total reclassification gains	$63	$20	$112	Net income

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

(in millions)	Year Ended December 31, 2016	2015	2014
Net interest income (includes $63, $23 and ($27) of AOCI reclassifications, respectively)	$3,758	$3,402	$3,301
Provision for credit losses	369	302	319
Noninterest income (includes ($1), $22 and $18 of AOCI reclassifications, respectively)	1,497	1,422	1,678
Noninterest expense (includes ($39), $8 and ($192) of AOCI reclassifications, respectively)	3,352	3,259	3,392
Income before income tax expense	1,534	1,263	1,268
Income tax expense (includes $38, $17 and $71 income tax net expense from reclassification items, respectively)	489	423	403
Net income	$1,045	$840	$865

NOTE 23 - 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 statement of operations 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 well as legacy RBS aircraft loan and leasing borrowers that were placed in runoff following a review of Asset Finance in the third quarter of 2016.

	Year Ended December 31, 2016			
(in millions)	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	$2,443	$1,288	$27	$3,758
Noninterest income	883	466	148	1,497
Total revenue	3,326	1,754	175	5,255
Noninterest expense	2,547	741	64	3,352
Profit before provision for credit losses	779	1,013	111	1,903
Provision for credit losses	243	47	79	369
Income before income tax expense (benefit)	536	966	32	1,534
Income tax expense (benefit)	191	335	(37)	489
Net income	$345	$631	$69	$1,045
Total average assets	$56,388	$47,159	$39,636	$143,183

	Year Ended December 31, 2015			
(in millions)	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	$2,198	$1,162	$42	$3,402
Noninterest income	910	415	97	1,422
Total revenue	3,108	1,577	139	4,824
Noninterest expense	2,456	709	94	3,259
Profit before provision for credit losses	652	868	45	1,565
Provision for credit losses	252	(13)	63	302
Income before income tax expense (benefit)	400	881	(18)	1,263
Income tax expense (benefit)	138	302	(17)	423
Net income (loss)	$262	$579	($1)	$840
Total average assets	$52,848	$42,800	$39,422	$135,070

	Year Ended December 31, 2014			
(in millions)	Consumer Banking	Commercial Banking	Other	Consolidated
Net interest income	$2,151	$1,073	$77	$3,301
Noninterest income	899	429	350	1,678
Total revenue	3,050	1,502	427	4,979
Noninterest expense	2,513	652	227	3,392
Profit before provision for credit losses	537	850	200	1,587
Provision for credit losses	259	(6)	66	319
Income before income tax expense	278	856	134	1,268
Income tax expense	96	295	12	403
Net income	$182	$561	$122	$865
Total average assets	$48,939	$38,483	$40,202	$127,624

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

FTP adjustments

The Company utilizes an FTP system to eliminate the effect of interest rate risk from the segments' net interest income because such risk is centrally managed within the Treasury function. The FTP system credits (or charges) the segments with the economic value of the funds created (or used) by the segments. The FTP system provides a funds credit for sources of funds and a funds charge for the use of funds by each segment. The 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 24 - SHARE-BASED COMPENSATION

Employees of the Company hold time-based restricted stock units and performance-based restricted stock units. A restricted stock unit is the right to receive shares of stock on a future date, which may be subject to time-based vesting conditions and/or performance-based vesting conditions. If a dividend is paid on shares underlying the awards prior to the date such shares are distributed, those dividends will be distributed following vesting in the same form as the dividend that has been paid to common stockholders generally.

Citizens Financial Group, Inc. Converted Equity 2010 Long Term Incentive Plan. In March 2014, RBS granted special IPO awards to certain Citizens employees pursuant to this plan. These awards were granted half in the form of restricted stock units in respect of RBS shares and half as a fixed convertible bond. Pursuant to their terms, upon the closing of the Company's IPO, these awards were converted into Company restricted stock units and the performance condition was met. These awards remained subject to the original vesting schedule and terms following the IPO, with half becoming vested in March 2016 and the remaining scheduled to become vested in March 2017. No additional awards have been granted under this plan.

Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan. Certain employees of the Company hold time-based restricted stock units and performance-based restricted stock units granted under this plan. Time-based restricted stock units granted generally become vested ratably over a three-year period and performance-based restricted stock units granted generally become vested at the end of a three-year performance period, depending on the level of performance achieved during such period.

Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan. Non-employee directors receive grants of time-based restricted stock units under this plan as compensation for their services pursuant to the Citizens Financial Group, Inc. Directors Compensation Policy. Restricted stock units granted to directors become fully vested on the earlier of (i) the first anniversary of the grant date or (ii) the date of the next occurring annual shareholders meeting, but settlement of the award is deferred until their cessation of service. In the event that a director ceases to serve on the Board of Directors prior to the vesting date for any reason other than under circumstances which would constitute cause, the restricted stock units will fully vest on the date of the director's cessation from service.

Citizens Financial Group, Inc. 2014 Employee Stock Purchase Plan. The Company also maintains the Citizens Financial Group, Inc. Employee Stock Purchase Plan (the "ESPP"), which provides eligible employees an opportunity to purchase its common stock at a 10% discount, through accumulated payroll deductions. Eligible employees may contribute up to 10% of eligible compensation to the ESPP, up to a maximum purchase of $25,000 worth of stock in any calendar year. Offering periods under the ESPP are quarterly. Shares of CFG common stock are purchased for a participant on the last day of each quarter at a 10% discount from the fair market value (fair market value under the plan is defined as the closing price on the day of purchase). Prior to the date the shares are purchased, participants do not have any rights or privileges as a stockholder with respect to shares to be purchased at the end of the offering period.

Summary of Share-Based Plans Activity

The following table presents the activity related to the Company's share-based plans (excluding the ESPP) for the year ended December 31, 2016:

CFG Share Awards	Shares Underlying Awards	Weighted Average Grant Price
Nonvested, January 1	3,428,130	$22.43
Granted	1,552,416	24.53
Vested	(1,762,655)	22.14
Forfeited	(308,862)	24.19
Nonvested, December 31	2,909,029	$23.92

During the years ended December 31, 2015 and 2014, the following number of CFG share awards were granted: 2015 (1,315,572 granted with weighted average grant price of $25.18); and 2014 (209,099 granted with weighted average grant price of $24.87). In addition, the following number of CFG share awards became vested: 2015 (2,496,092 vested with weighted average grant price of $22.15) and 2014 (161,067 vested with weighted average grant price of $25.07).

For RBS share awards during the year ended December 31, 2014, 9,627,635 awards were granted with a weighted average grant price of $5.48, and 6,040,806 became vested with a weighted average grant price of $6.14.

There are 59,004,280 shares of Company common stock available for awards to be granted under our employee share plans (including the "ESPP"). Upon settlement of share-based awards, the Company generally issues new shares, but may also issue shares from treasury stock.

Compensation Expense

Compensation expense related to the above share plans (including the ESPP) was $23 million, $24 million, and $53 million for the year ended December 31, 2016, 2015, and 2014, respectively. At December 31, 2016, the total unrecognized compensation expense for nonvested equity awards granted was $24 million. This expense is expected to be recognized over a weighted-average period of two years. No share-based compensation costs were capitalized during the years ended December 31, 2016, 2015, and 2014.

The income tax benefit recognized in earnings based on the compensation expense recognized for all share-based compensation arrangements amounted to $8 million, $5 million and $17 million in 2016, 2015 and 2014, respectively.

NOTE 25 - EARNINGS PER SHARE

	Year Ended December 31,		
(dollars in millions, except share and per-share data)	2016	2015	2014
Numerator (basic and diluted):			
Net income	$1,045	$840	$865
Less: Preferred stock dividends	14	7	—
Net income available to common stockholders	$1,031	$833	$865
Denominator:			
Weighted-average common shares outstanding - basic	522,093,545	535,599,731	556,674,146
Dilutive common shares: share-based awards	1,837,173	2,621,167	1,050,790
Weighted-average common shares outstanding - diluted	523,930,718	538,220,898	557,724,936
Earnings per common share:			
Basic	$1.97	$1.55	$1.55
Diluted	1.97	1.55	1.55

Potential dilutive common shares are excluded from the computation of diluted EPS in the periods where the effect would be antidilutive. The Company did not have any antidilutive shares for the years ended December 31, 2016, 2015 and 2014.

NOTE 26 - PARENT COMPANY ONLY FINANCIALS

CFG Parent Company
Condensed Statements of Operations

	Year Ended December 31,		
(in millions)	**2016**	**2015**	**2014**
OPERATING INCOME:			
Income from consolidated subsidiaries and excluding equity in undistributed earnings:			
Dividends from banking subsidiaries	$555	$345	$595
Interest	53	54	29
Management and service fees	26	20	21
Equity securities gains	3	3	—
All other operating income	7	4	5
Total operating income	644	426	650
OPERATING EXPENSE:			
Salaries and employee benefits	37	15	63
Interest expense	99	108	80
All other expenses	15	38	123
Total operating expense	151	161	266
Income before taxes and undistributed income	493	265	384
Income taxes	(26)	(29)	(77)
Income before undistributed earnings of subsidiaries	519	294	461
Equity in undistributed earnings of subsidiaries:			
Bank	522	543	402
Nonbank	4	3	2
Net income	$1,045	$840	$865
Other comprehensive (loss) income, net of income taxes:			
Net pension plan activity arising during the period	($2)	$1	$8
Net unrealized derivative instrument (losses) gains arising during the period	(8)	2	—
Net unrealized securities (losses) gains arising during the period	—	(2)	1
Other comprehensive (loss) income activity of the Parent Company, net of income taxes	(10)	1	9
Other comprehensive (loss) income activity of Bank subsidiaries, net of income taxes	(271)	(16)	267
Total other comprehensive (loss) income, net of income taxes	(281)	(15)	276
Total comprehensive income	$764	$825	$1,141

In accordance with federal and state banking regulations, dividends paid by the Company’s banking subsidiaries to the Company itself are generally limited to the retained earnings of the respective banking subsidiaries unless specifically approved by the appropriate bank regulator. The Company declared and paid total common stock dividends of $241 million in 2016, $214 million in 2015, and $806 million in 2014. The Company also declared and paid preferred stock dividends of $14 million in 2016 and $7 million in 2015.

CFG Parent Company
Condensed Balance Sheets

(in millions)	December 31, 2016	December 31, 2015
ASSETS:		
Cash and due from banks	$671	$531
Loans and advances to:		
Bank subsidiaries	1,156	1,725
Nonbank subsidiaries	20	—
Investments in subsidiaries:		
Bank subsidiaries	20,116	19,865
Nonbank subsidiaries	50	54
Other assets	128	160
TOTAL ASSETS	$22,141	$22,335
LIABILITIES:		
Long-term borrowed funds due to:		
Unaffiliated companies	$2,318	$2,595
Balances due to nonbank subsidiaries	—	1
Other liabilities	76	93
TOTAL LIABILITIES	2,394	2,689
TOTAL STOCKHOLDERS' EQUITY	19,747	19,646
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$22,141	$22,335

CFG Parent Company
Condensed Cash Flow Statements

	Year Ended December 31,		
(in millions)	**2016**	**2015**	**2014**
OPERATING ACTIVITIES			
Net income	$1,045	$840	$865
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	5	49	27
Gain on sales of assets	(3)	(3)	—
Equity in undistributed earnings of subsidiaries	(526)	(546)	(404)
(Decrease) increase in other liabilities	(19)	(48)	18
(Increase) decrease in other assets	35	(16)	(74)
Other operating, net	(4)	3	17
Total adjustments	(512)	(561)	(416)
Net cash provided by operating activities	533	279	449
INVESTING ACTIVITIES			
Proceeds from sales of securities available for sale	—	8	—
Investments in and advances to subsidiaries	(40)	(215)	(1,470)
Repayment of investments in and advances to subsidiaries	588	376	945
Other investing, net	(2)	—	(11)
Net cash provided (used) by investing activities	546	169	(536)
FINANCING ACTIVITIES			
Proceeds from issuance of long-term borrowed funds	349	1,000	1,000
Repayments of long-term borrowed funds	(625)	(750)	—
Proceeds from issuance of common stock	22	27	13
Treasury stock purchased	(430)	(500)	(334)
Net proceeds from issuance of preferred stock	—	247	—
Dividends declared and paid to common stockholders	(241)	(214)	(806)
Dividends declared and paid to preferred stockholders	(14)	(7)	—
Net cash used by financing activities	(939)	(197)	(127)
Increase (decrease) in cash and due from banks	140	251	(214)
Cash and due from banks at beginning of year	531	280	494
Cash and due from banks at end of year	$671	$531	$280

NOTE 27 - OTHER OPERATING EXPENSE

The following table presents the details of other operating expense:

	Year Ended December 31,		
(in millions)	**2016**	**2015**	**2014**
Deposit insurance	$120	$115	$95
Promotional expense	98	101	86
Settlements and operating losses	62	43	89
Other	246	271	303
Other operating expense	$526	$530	$573

NOTE 28 - SUBSEQUENT EVENTS

The Company has evaluated the impacts of events that have occurred subsequent to December 31, 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 January 20, 2017, the Company announced that its Board declared a quarterly common stock dividend of $0.14 per share, or approximately $72 million, which was paid on February 16, 2017 to stockholders of record at the close of business on February 2, 2017.

On February 16, 2017, the Company announced that its Board declared a semi-annual preferred dividend on its 5.500% Series A, Fixed-to-Floating Non-Cumulative Perpetual Preferred Stock. The dividend of $27.50 per share, or $7 million in the aggregate, is payable on April 6, 2017 to the holders of record as of March 22, 2017.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

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

Management's Annual Report on Internal Control over Financial Reporting, the Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting, and the Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements are included in Item 8 on pages 117, 119 and 118, respectively.

ITEM 9B. OTHER INFORMATION

None.

PART III

We refer in Part III of this report to relevant sections of our 2017 Proxy Statement for the 2017 annual meeting of shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days of the close of our 2016 fiscal year. Portions of our 2017 Proxy Statement, including the sections we refer to in this report, are incorporated by reference into this report.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item is presented under the captions "Corporate Governance"— "Election of Directors" and "Board Governance and Oversight," and "Section 16(a) Beneficial Ownership Reporting Compliance" of our 2017 Proxy Statement, which is incorporated by reference into this item.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is presented under the captions "Compensation Matters" — "Compensation Discussion and Analysis," "Compensation Committee Report," "Executive Compensation," "Director Compensation," and "Compensation Risk Assessment" of our 2017 Proxy Statement, which is incorporated by reference into this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item is presented under the caption "Security Ownership of Certain Beneficial Owners and Management" of our 2017 Proxy Statement, which is incorporated by reference into this item.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item is set forth under the captions "Corporate Governance" — "Board Governance and Oversight — Director Independence" and "Related Person Transactions" of our 2017 Proxy Statement, which is incorporated by reference into this item.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is presented under the captions "Audit Matters" — "Pre-approval of Independent Auditor Services" and "Independent Registered Public Accounting Firm Fees" of our 2017 Proxy Statement, which is incorporated by reference into this item.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements of Citizens Financial Group, Inc. included in this report:

Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements;
Consolidated Balance Sheets as of December 31, 2016 and 2015;
Consolidated Statements of Operations for the Years Ended December 31, 2016, 2015 and 2014;
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2016, 2015 and 2014;
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2016, 2015 and 2014;
Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015 and 2014; and
Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

All financial statement schedules for the Registrant have been included in the audited Consolidated Financial Statements or the related footnotes in Part II, Item 8 — Financial Statements and Supplementary Data, included in this report, or are either inapplicable or not required.

(a)(3) Exhibits

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

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

4.1 Senior Debt Indenture between the Company and The Bank of New York Mellon dated as of October 28, 2015 (incorporated by reference to Exhibit 4.1 of Registration Statement on Form S-3, filed October 29, 2015)

4.2 Subordinated Indenture between the Company and The Bank of New York Mellon dated as of September 28, 2012 (incorporated herein by reference to Exhibit 4.2 of the Registration Statement on Form S-1, filed July 28, 2015)

4.3 Form of Certificate representing the Series A Preferred Stock (incorporated herein by reference to Exhibit 4.1 of the Current Report on Form 8-K, filed April 6, 2015)

4.4 Agreement to furnish to the Securities and Exchange Commission upon request a copy of instruments defining the rights of holders of certain long-term debt of the registrant and consolidated subsidiaries*

10.1 Trademark License Agreement between the Registrant and The Royal Bank of Scotland Group plc (incorporated herein by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q, filed November 14, 2014)

10.2 Citizens Financial Group, Inc. Converted Equity 2010 Deferral Plan (incorporated herein by reference to Exhibit 10.7 of the Quarterly Report on Form 10-Q, filed November 14, 2014)†

10.3 Form of The Royal Bank of Scotland Group, plc 2010 Deferral Plan Award Certificate (incorporated herein by reference to Exhibit 10.23 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014)†

10.4 Citizens Financial Group, Inc. Converted Equity 2010 Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.8 of the Quarterly Report on Form 10-Q, filed November 14, 2014)†

10.5 Form of The Royal Bank of Scotland Group, plc CFG Special (IPO) Award Certificate (incorporated herein by reference to Exhibit 10.35 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014)†

10.6 Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.11 of the Quarterly Report on Form 10-Q, filed November 14, 2014)†

10.7	Amended and Restated Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan as of June 23, 2016 (incorporated herein by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q, filed August 5, 2016)†
10.8	Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Agreement for 2015 Awards (incorporated herein by reference to Exhibit 10.10 of the Annual Report on Form 10-K, filed March 3, 2015)†
10.9	Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Award Agreement for 2016 Awards (incorporated herein by reference to Exhibit 10.11 of the Annual Report on Form 10-K, filed February 26, 2016)†
10.10	Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Restricted Stock Unit Award Agreement†*
10.11	Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Bruce Van Saun Relating to Annual Awards†*
10.12	Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Share Unit Award Agreement for 2015 Awards (incorporated herein by reference to Exhibit 10.11 of the Annual Report on Form 10-K, filed March 3, 2015)†
10.13	Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Share Award Agreement for 2016 Awards (incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q, filed May 9, 2016)†
10.14	Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Form of Performance Stock Award Agreement†*
10.15	Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Performance Stock Unit Award Agreement for Bruce Van Saun Relating to Annual Awards†*
10.16	Citizens Financial Group, Inc. Amendment to Performance Share Unit Award Agreement/Restricted Stock Unit Agreement/Deferred Cash Agreement Terms and Conditions (incorporated herein by reference to Exhibit 10.14 of the Annual Report on Form 10-K, filed February 26, 2016)†
10.17	Citizens Financial Group, Inc. 2014 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 99.3 of the Registration Statement on Form S-8, filed September 26, 2014)†
10.18	Citizens Financial Group, Inc. Non-Employee Directors Compensation Policy original adopted as of September 29, 2014 and amended on June 25, 2015 (incorporated herein by reference to Exhibit 10.14 of Registration Statement on Form S-1, filed July 21, 2015)†
10.19	Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan (incorporated herein by reference to Exhibit 99.2 of the Registration Statement on Form S-8, filed September 26, 2014)†
10.20	Amended and Restated Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan as of June 23, 2016 (incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q, filed August 5, 2016)†
10.21	Form of Citizens Financial Group, Inc. 2014 Non-Employee Directors Compensation Plan Restricted Stock Unit Award Agreement (incorporated herein by reference to Exhibit 10.19 of the Annual Report on Form 10-K, filed February 26, 2016)†
10.22	Amended and Restated Deferred Compensation Plan for Directors of Citizens Financial Group, Inc., effective January 1, 2009 (incorporated herein by reference to Exhibit 10.19 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014)†
10.23	Form of Indemnification Agreement (incorporated herein by reference to Exhibit 10.5 of Amendment No. 3 to Registration Statement on Form S-1, filed September 8, 2014)†
10.24	Amended and Restated CFG Voluntary Executive Deferred Compensation Plan, effective January 1, 2009 and amended and restated on September 1, 2014 (incorporated herein by reference to Exhibit 10.21 of the Annual Report on Form 10-K, filed March 3, 2015)†

10.25	Amended and Restated Citizens Financial Group, Inc. Deferred Compensation Plan, effective January 1, 2009 (incorporated herein by reference to Exhibit 10.20 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014)†
10.26	Citizens Financial Group, Inc. Form of Deferred Cash Award Agreement (incorporated herein by reference to Exhibit 10.23 of the Annual Report on Form 10-K, filed March 3, 2015)†
10.27	Citizens Financial Group, Inc. Form of Deferred Cash Award Agreement for 2016 Awards (incorporated herein by reference to Exhibit 10.28 of the Annual Report on Form 10-K, filed February 26, 2016)†
10.28	Citizens Financial Group, Inc. Executive Severance Practice (incorporated herein by reference to Exhibit 10.21 of Amendment No. 2 to Registration Statement on Form S-1, filed August 15, 2014)†
10.30	Citizens Financial Group, Inc. Performance Formula and Incentive Plan (incorporated herein by reference to Exhibit 10.28 of Annual Report on Form 10-K, filed March 3, 2015)†
10.31	Amended and Restated Executive Employment Agreement, dated May 5, 2016, between the Registrant and Bruce Van Saun (incorporated herein by reference to Exhibit 10.5 of the Quarterly Report on Form S-1, filed May 9, 2016)†
10.32	Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement between the Registrant and Bruce Van Saun relating to the May 2016 Grant (incorporated herein by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q filed May 9, 2016)†
10.33	Citizens Financial Group, Inc. 2014 Omnibus Incentive Plan Performance Share Unit Award Agreement between the Registrant and Bruce Van Saun for the May 2016 Grant (incorporated herein by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q filed May 9, 2016)†
10.34	Executive Employment Agreement, dated March 6, 2015, between the Registrant and Eric Aboaf (incorporated herein by reference to Exhibit 10.43 of Registration Statement on Form S-1, filed March 12, 2015)†
10.35	Retirement Agreement, dated March 9, 2015, between the Registrant and John Fawcett (incorporated herein by reference to Exhibit 10.44 of Amendment No. 1 to Registration Statement on Form S-1, filed March 23, 2015)†
10.36	Executive Employment Agreement, dated November 3, 2016, between the Registrant and John Fawcett (incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q, filed November 4, 2016)†
10.37	Executive Employment Agreement, dated March 23, 2015, between the Registrant and Donald H. McCree III (incorporated by reference to Exhibit 10.45 of Amendment No. 2 to Registration Statement on Form S-1, filed March 25, 2015) †
10.38	Offer Letter, dated May 23, 2008, as amended on August 6, 2014, between the Registrant and Brad Conner (incorporated herein by reference to Exhibit 10.39 of the Annual Report on Form 10-K, filed March 3, 2015)†
10.39	Executive Employment Agreement, dated July 1, 2014, between the Registrant and Stephen Gannon (incorporated herein by reference to Exhibit 10.41 of the Annual Report on Form 10-K, filed March 3, 2015)†
10.40	Executive Employment Agreement, dated March 18, 2016, between the Registrant and Randall Black (incorporated herein by reference to Exhibit 10.4 of the Quarterly Report on Form 10-Q filed May 9, 2016)†
10.41	Executive Employment Agreement, dated December 13, 2016, between the Registrant and John F. Woods†*
10.42	Supplemental Retirement Agreement, dated October 31, 1995, as amended, between Charter One Financial, Inc. and Charles J. Koch (incorporated herein by reference to Exhibit 10.37 of Amendment No. 3 to Registration Statement on Form S-1, filed September 8, 2014)†
11.1	Statement re computation of earnings per share (filed herewith as Note 25 to the audited Consolidated Financial Statements in Part II, Item 8 - Financial Statements and Supplementary Data, included in this report)
12.1	Computation of Ratio of Earnings to Fixed Charges*

12.2	Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends*
21.1	Subsidiaries of Registrant*
23.1	Consent of Independent Registered Public Accounting Firm*
24.1	Power of Attorney (contained herein on signature pages)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101	The following materials from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements*

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

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 24, 2017.

CITIZENS FINANCIAL GROUP, INC.
(Registrant)

By: /s/ Bruce Van Saun

Name: Bruce Van Saun
Title: Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

SIGNATURES

KNOW ALL PERSONS BY THESE PRESENTS, that each of the undersigned, being a director or officer of Citizens Financial Group, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints Bruce Van Saun, John Fawcett, Stephen T. Gannon, and Randall J. Black, and each of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead in any and all capacities, to sign one or more Annual Reports for the Company's fiscal year ended December 31, 2016 on Form 10-K under the Securities Exchange Act of 1934, as amended, or such other form as any such attorney-in-fact may deem necessary or desirable, any amendments thereto, and all additional amendments thereto, each in such form as they or any one of them may approve, and to file the same with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done so that such Annual Report shall comply with the Securities Exchange Act of 1934, as amended, and the applicable Rules and Regulations adopted or issued pursuant thereto, as fully and to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitute or resubstitute, may lawfully do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ Bruce Van Saun Bruce Van Saun	Chairman of the Board and Chief Executive Officer (Principal Executive Officer and Director)	February 24, 2017
/s/ John Fawcett John Fawcett	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 24, 2017
/s/ Randall J. Black Randall J. Black	Executive Vice President and Controller (Principal Accounting Officer)	February 24, 2017
/s/ Mark Casady Mark Casady	Director	February 24, 2017
/s/ Christine M. Cumming Christine M. Cumming	Director	February 24, 2017
/s/ Anthony Di Iorio Anthony Di Iorio	Director	February 24, 2017
/s/ William P. Hankowsky William P. Hankowsky	Director	February 24, 2017
/s/ Howard W. Hanna, III Howard W. Hanna, III	Director	February 24, 2017
/s/ Leo I. Higdon, Jr. Leo I. Higdon, Jr.	Director	February 24, 2017
/s/ Charles J. Koch Charles J. Koch	Director	February 24, 2017
/s/ Arthur F. Ryan Arthur F. Ryan	Director	February 24, 2017
/s/ Shivan S. Subramaniam Shivan S. Subramaniam	Director	February 24, 2017
/s/ Wendy A. Watson Wendy A. Watson	Director	February 24, 2017
/s/ Marita Zuraitis Marita Zuraitis	Director	February 24, 2017

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bruce Van Saun, certify that:

1. I have reviewed this Annual Report on Form 10-K of Citizens Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls over financial reporting.

Date: February 24, 2017

/s/ Bruce Van Saun
Bruce Van Saun
Chief Executive Officer

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John Fawcett, certify that:

1. I have reviewed this Annual Report on Form 10-K of Citizens Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 24, 2017

/s/ John Fawcett

John Fawcett

Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO SECTION 906

OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Citizens Financial Group, Inc. (the "Company"), does hereby certify that:

1. The Annual Report on Form 10-K of the Company for the year ended December 31, 2016 (the “Form 10-K”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 24, 2017

/s/ Bruce Van Saun
Bruce Van Saun
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff on request.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO SECTION 906

OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Citizens Financial Group, Inc. (the "Company"), does hereby certify that:

1. The Annual Report on Form 10-K of the Company for the year ended December 31, 2016 (the "Form 10-K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 24, 2017

/s/ John Fawcett
John Fawcett
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff on request.

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Key Performance Metrics and Non-GAAP Financial Measures

Key Performance Metrics:

Our management team uses certain key performance metrics ("KPMs") to gauge our performance and progress over time in achieving our strategic and operational goals and also in comparing our performance against our peers. In connection with our path to becoming an independent public company, we established the following financial targets, in addition to others, as KPMs. These KPMs are utilized by our management in measuring our progress against financial goals and as a tool in helping assess performance for compensation purposes. These KPMs can largely be found in our Registration Statements on Form S-1 and our periodic reports, which are filed with the Securities and Exchange Commission, and are supplemented from time to time with additional information in connection with our quarterly earnings releases.

Our key performance metrics include:

Return on average tangible common equity ("ROTCE");
Return on average total tangible assets ("ROTA");
Efficiency ratio;
Operating leverage; and
Common equity tier 1 capital ratio (Basel III fully phased-in basis).

In establishing goals for these KPMs, we determined that they would be measured on a management-reporting basis, or an operating basis, which we refer to externally as "Adjusted" results. We believe that these "Adjusted" results, which exclude restructuring charges, special items and/or notable items, as applicable, provide the best representation of our underlying financial progress toward these goals as they exclude items that our management does not consider indicative of our on-going financial performance. We have consistently shown these metrics on this basis to investors since our initial public offering in September of 2014. Adjusted KPMs are considered non-GAAP financial measures.

Non-GAAP Financial Measures:

This document contains non-GAAP financial measures. The following tables present reconciliations of our non-GAAP measures. These reconciliations exclude 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.

The non-GAAP measures presented include "noninterest income", "total revenue", "noninterest expense", "net income", "net income available to common stockholders", and "net income per average common share".

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 as reported under GAAP.

Key Performance Metrics, Non-GAAP Financial Measures and Reconciliations

Adjusted - excluding restructuring charges, special items and/or notable items

(dollars in millions, except per-share data)

		FULL YEAR							QUARTERLY TRENDS
					2016 Change 2015		2016 Change 2014		
		2016	2015	2014	$	%	$	%	4Q16
Total revenue, adjusted:									
Total revenue (GAAP)	A	$5,255	$4,824	$4,979	$431	9 %	$276	6 %	
Less: Special items - Net gain on the Chicago Divestiture		—	—	288	—	—	(288)	(100)	
Less: Notable items		67	—	—	67	100	67	100	
Total revenue, adjusted (non-GAAP)	B	$5,188	$4,824	$4,691	$364	8 %	$497	11 %	
Noninterest expense, adjusted:									
Noninterest expense (GAAP)	C	$3,352	$3,259	$3,392	$93	3 %	($40)	(1%)	
Less: Restructuring charges and special items		—	50	169	(50)	(100)	(169)	(100)	
Less: Notable items		36	—	—	36	100	36	100	
Noninterest expense, adjusted (non-GAAP)	D	$3,316	$3,209	$3,223	$107	3 %	$93	3 %	
Net income, adjusted:									
Net income (GAAP)	E	$1,045	$840	$865	$205	24 %	$180	21 %	$282
Add: Restructuring charges and special items, net of income tax expense (benefit)		—	31	(75)	(31)	(100)	75	100	—
Add: Notable items, net of income tax expense (benefit)		(19)	—	—	(19)	(100)	(19)	(100)	—
Net income, adjusted (non-GAAP)	F	$1,026	$871	$790	$155	18 %	$236	30 %	$282
Net income available to common stockholders, adjusted:									
Net income available to common stockholders (GAAP)	G	$1,031	$833	$865	$198	24 %	$166	19 %	$282
Add: Restructuring charges and special items, net of income tax expense (benefit)		—	31	(75)	(31)	(100)	75	100	—
Add: Notable items, net of income tax expense (benefit)		(19)	—	—	(19)	(100)	(19)	(100)	—
Net income available to common stockholders, adjusted (non-GAAP)	H	$1,012	$864	$790	$148	17 %	$222	28 %	$282
Operating leverage:									
Increase (decrease) in total revenue	A	8.93 %	(3.11%)	6.16 %					
Increase (decrease) noninterest expense	C	2.85	(3.92)	(55.83)					
Operating leverage		6.08 %	0.81 %	61.99 %	527	bps			
Operating leverage, adjusted:									
Increase (decrease) in total revenue, adjusted (non-GAAP)	B	7.55 %	2.84 %	0.02 %					
Increase (decrease) noninterest expense, adjusted (non-GAAP)	D	3.33	(0.43)	0.16					
Operating leverage, adjusted (non-GAAP)		4.22 %	3.27 %	(0.14%)	95	bps			
Efficiency ratio and efficiency ratio, adjusted:									
Efficiency ratio	C/A	63.8 %	67.6 %	68.1 %	(376)	bps	(432)	bps	
Efficiency ratio, adjusted (non-GAAP)	D/B	63.9	66.5	68.7	(260)	bps	(478)	bps	
Return on average tangible common equity and return on average tangible common equity, adjusted:									
Average common equity (GAAP)	I	$19,698	$19,354	$19,399	$344	2 %	$299	2 %	$19,645
Less: Average goodwill (GAAP)		6,876	6,876	6,876	—	—	—	—	6,876
Less: Average other intangibles (GAAP)		2	4	7	(2)	(50)	(5)	(71)	1
Add: Average deferred tax liabilities related to goodwill (GAAP)		502	445	377	57	13	125	33	523
Average tangible common equity	J	$13,322	$12,919	$12,893	$403	3 %	$429	3 %	$13,291
Return on average tangible common equity	G/J	7.7 %	6.4 %	6.7 %	129	bps	103	bps	8.4 %
Return on average tangible common equity, adjusted (non-GAAP)	H/J	7.6	6.7	6.1	91	bps	147	bps	8.4
Net income per average common share - basic and diluted, adjusted:									
Average common shares outstanding - basic (GAAP)	K	522,093,545	535,599,731	556,674,146	(13,506,186)	(3%)			
Average common shares outstanding - diluted (GAAP)	L	523,930,718	538,220,898	557,724,936	(14,290,180)	(3)			
Net income per average common share - basic (GAAP)	G/K	$1.97	$1.55	$1.55	$0.42	27			
Net income per average common share - diluted (GAAP)	G/L	1.97	1.55	1.55	0.42	27			
Net income per average common share - basic, adjusted (non-GAAP)	H/K	1.94	1.61	1.42	0.33	20			
Net income per average common share - diluted, adjusted (non-GAAP)	H/L	1.93	1.61	1.42	0.32	20			
Commercial Banking - Return on average tangible common equity									
Net income (GAAP)	M	$631							
Average tangible common equity	N	5,071							
Return on average tangible common equity	M/N	12.4 %							

Citizens Financial Group

Citizens Financial Group, Inc. is one of the nation's oldest and largest financial institutions, with $149.5 billion in assets as of December 31, 2016. Headquartered in Providence, Rhode Island, Citizens offers a broad range of retail and commercial banking products and services to individuals, small businesses, middle-market companies, large corporations and institutions. In Consumer Banking, Citizens helps its retail customers "bank better" with mobile and online banking, a 24/7 customer contact center and the convenience of approximately 3,200 ATMs and approximately 1,200 Citizens Bank branches in 11 states in the New England, Mid-Atlantic and Midwest regions.

Citizens also provides wealth management, mortgage lending, auto lending, student lending and commercial banking services in select markets nationwide. In Commercial Banking, Citizens 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.

Citizens operates through its subsidiaries Citizens Bank, N.A. and Citizens Bank of Pennsylvania as Citizens Bank, Citizens Commercial Banking and Citizens One. Additional information about Citizens and its full line of products and services can be found at www.citizensbank.com.

FORM 10-K

We will send Citizens Financial Group's 2016 Annual Report on Form 10-K free of charge to any stockholder who asks for a copy in writing. Stockholders also can ask for copies of any exhibit to the Form 10-K.

Please send requests to:

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Additional information about the company, including annual and quarterly financial information, is available online at http://investor.citizensbank.com.

Inquiries may also be directed to CFGInvestorRelations@citizensbank.com.

COMMON STOCK

Citizens Financial Group, Inc. is listed on the New York Stock Exchange under the symbol "CFG".

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