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

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

For the Quarterly Period Ended
September 30, 2016

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

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

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

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

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

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

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

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

Large accelerated filer [ü] Accelerated filer [ ]
Non-accelerated filer (Do not check if a smaller reporting company) [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ] Yes [ü] No

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

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CITIZENS FINANCIAL GROUP, INC.

GLOSSARY OF ACRONYMS AND TERMS

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

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

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

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

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

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

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

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except share and per-share data)	2016	2015	2016	2015
INTEREST INCOME:				
Interest and fees on loans and leases	$926	$812	$2,690	$2,381
Interest and fees on loans held for sale, at fair value	4	3	10	8
Interest and fees on other loans held for sale	1	3	6	7
Investment securities	146	154	432	468
Interest-bearing deposits in banks	2	2	6	4
Total interest income	1,079	974	3,144	2,868
INTEREST EXPENSE:				
Deposits	71	65	194	177
Federal funds purchased and securities sold under agreements to repurchase	1	4	2	13
Other short-term borrowed funds	10	17	33	51
Long-term borrowed funds	52	32	143	95
Total interest expense	134	118	372	336
Net interest income	945	856	2,772	2,532
Provision for credit losses	86	76	267	211
Net interest income after provision for credit losses	859	780	2,505	2,321
NONINTEREST INCOME:				
Service charges and fees	152	145	446	419
Card fees	52	60	153	172
Trust and investment services fees	37	41	112	118
Capital markets fees	34	21	91	73
Foreign exchange and letter of credit fees	23	22	65	67
Mortgage banking fees	33	18	76	81
Bank-owned life insurance income	14	14	40	40
Securities gains, net	—	2	13	19
Net securities impairment losses recognized in earnings	(3)	(2)	(11)	(5)
Other income	93	32	135	76
Total noninterest income	435	353	1,120	1,060
NONINTEREST EXPENSE:				
Salaries and employee benefits	432	404	1,289	1,234
Outside services	102	89	279	267
Occupancy	78	75	230	245
Equipment expense	65	62	194	190
Amortization of software	46	35	126	108
Other operating expense	144	133	387	405
Total noninterest expense	867	798	2,505	2,449
Income before income tax expense	427	335	1,120	932
Income tax expense	130	115	357	313
NET INCOME	$297	$220	$763	$619
Net income available to common stockholders	$290	$213	$749	$612
Weighted-average common shares outstanding:				
Basic	519,458,976	530,985,255	525,477,238	538,279,222

Diluted	521,122,336	536,698,158	527,261,380	540,926,361
Per common share information:				
Basic earnings	$0.56	$0.40	$1.43	$1.14
Diluted earnings	0.56	0.40	1.42	1.13
Dividends declared and paid	0.12	0.10	0.34	0.30

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

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

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS’ EQUITY (UNAUDITED)

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

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

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CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

Basis of Presentation

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

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

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

Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

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

Company beginning on January 1, 2017. Adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.
In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)." The ASU generally requires lessees to recognize a right-of use asset and corresponding lease liability for all leases with a lease term of greater than one year. The ASU is effective for the Company beginning on January 1, 2019. The Company is currently assessing the impact of this guidance on the Company's Consolidated Financial Statements.
In January 2016, the FASB issued ASU No. 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities." The ASU requires equity investments (except for those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in the fair value recognized through net income. The ASU also requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the notes to the financial statements. In addition, the ASU makes several other targeted amendments to the existing accounting and disclosure requirements for financial instruments, including revised guidance related to valuation allowance assessments when recognizing deferred tax assets on unrealized losses on debt securities available for sale. The ASU is effective for the Company beginning on January 1, 2018. The Company is currently assessing the impact of this guidance on the Company's Consolidated Financial Statements.
NOTE 2 - SECURITIES
The following table presents the major components of securities at amortized cost and fair value:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Realized gains and losses on securities are presented below:

	Three Months Ended	Nine Months Ended

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

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

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

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

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

	September 30, 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 11 "Derivatives."

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

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NOTE 3 - LOANS AND LEASES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[1] Effective March 31, 2016, the Company began excluding loans 90 days or more past due and still accruing from nonperforming loans and leases. Nonperforming loans and leases as of December 31, 2015 included loans and leases on nonaccrual of $1.051 billion and loans and leases accruing and 90 days or more past due of $9 million.
[2] Effective March 31, 2016, the Company began excluding first lien residential mortgage loans that are 100% guaranteed by the Federal Housing Administration from nonperforming balances. As of September 30, 2016, $16 million of these loans were accruing and 90 days or more past due.
[3] Effective March 31, 2016, the Company began excluding guaranteed residential mortgage loans sold to GNMA for which the Company had the right, but not the obligation, to repurchase from nonperforming balances. As of September 30, 2016 these loans totaled $32 million. These loans are consolidated on the Company’s Consolidated Balance Sheets.

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

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

A summary of key performance indicators is presented below:

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

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

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

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The recorded investment in mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings are in process was $198 million and $257 million as of September 30, 2016 and December 31, 2015, respectively.

An analysis of the age of both accruing and nonaccruing loan and lease past due amounts is presented below:

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

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

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

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

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

Additional information on impaired loans is presented below:

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

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

Troubled Debt Restructurings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(2) Includes modifications that consist of multiple concessions, one of which is a maturity extension (unless one of the other concessions was an interest rate reduction).

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

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

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

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

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

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

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

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

Concentrations of Credit Risk

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

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The following table presents balances of loans with these characteristics:

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

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

NOTE 5 - VARIABLE INTEREST ENTITIES

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

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

Low Income Housing Tax Credit Partnerships

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

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

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

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

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

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

Renewable Energy Entities

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

NOTE 6 - MORTGAGE BANKING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 7 - BORROWED FUNDS

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

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

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

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

Other short-term borrowed funds (primarily current portion of FHLB advances)	2,564	5,062	3,133	6,169	5,865
Weighted-average interest rate during the period:					
Federal funds purchased and securities sold under agreements to repurchase	0.10 %	0.32 %	0.09 %	0.22 %	0.22 %
Other short-term borrowed funds (primarily current portion of FHLB advances)	0.63	0.29	0.62	0.27	0.28

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

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

(in millions)	September 30, 2016	December 31, 2015
Citizens Financial Group, Inc.:		
4.150% fixed rate subordinated debt, due 2022 [1]	$347	$350
5.158% fixed-to-floating rate subordinated debt, (LIBOR + 3.56%) callable, due 2023	333	333
3.750% fixed rate subordinated debt, due 2024 [2]	250	250
4.023% fixed rate subordinated debt, due 2024 [3]	42	331
4.082% fixed rate subordinated debt, due 2025 [4]	—	331
4.350% fixed rate subordinated debt, due 2025 [5]	249	250
4.300% fixed rate subordinated debt, due 2025 [6]	749	750
2.375% fixed rate senior unsecured debt, due 2021 [7]	348	—
Banking Subsidiaries:		
1.600% senior unsecured notes, due 2017 [8] [9]	750	749
2.300% senior unsecured notes, due 2018 [8] [10]	752	747
2.450% senior unsecured notes, due 2019 [8] [11]	761	752
2.500% senior unsecured notes, due 2019 [8][12]	749	—
2.550% senior unsecured notes, due 2021[8][13]	998	—
Federal Home Loan advances due through 2033	5,564	5,018
Other	10	25
Total long-term borrowed funds	$11,902	$9,886

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

11 “Derivatives” for further information.

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

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

(12) This balance is comprised of: principal balance of $750 million at September 30, 2016; impact from interest rate swaps of $1 million and ($2) million of unamortized deferred issuance costs and discount at September 30, 2016. See Note 11 “Derivatives” for further information.

(13) This balance is comprised of: principal balance of $1.0 billion at September 30, 2016; impact from interest rate swaps of $2 million and ($4) million of unamortized deferred issuance costs and discount at September 30, 2016. See Note 11 “Derivatives” for further information.

On July 28, 2016, the Company issued $350 million of 2.375% fixed-rate senior notes due 2021, and used the net proceeds and available cash to repurchase $500 million of its subordinated debt. Specifically, the Company retired $334 million of 4.082% subordinated notes due 2025 and $166 million of 4.023% subordinated notes due 2024. Advances, lines of credit, and letters of credit from the FHLB are collateralized by pledged mortgages and pledged securities at least sufficient to satisfy the collateral maintenance level established by the FHLB. The utilized borrowing capacity for FHLB advances and letters of credit was $12.4 billion and $11.3 billion at September 30, 2016 and December 31, 2015, respectively. The Company’s available FHLB borrowing capacity was $3.1 billion and $4.1 billion at September 30, 2016 and

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

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

NOTE 8 - STOCKHOLDERS’ EQUITY
Preferred Stock
The Company had 100,000,000 shares authorized and 250,000 shares outstanding of $25.00 par value undesignated preferred stock as of September 30, 2016 and December 31, 2015, respectively. The Board of Directors or any authorized committee thereof are authorized to provide for the issuance of these shares in one or more series, and by filing a certificate pursuant to applicable law of the State of Delaware, to establish or change from time to time the number of shares of each such series, and to fix the designations, powers, including voting powers, full or limited, or no voting powers, preferences and the relative, participating, optional or other special rights of the shares of each series and any qualifications, limitations and restrictions thereof.
On April 6, 2015, the Company issued $250 million, or 250,000 shares, of 5.500% fixed-to-floating rate non-cumulative perpetual Series A Preferred Stock, par value of $25.00 per share with a liquidation preference $1,000 per share (the “Series A Preferred Stock”) to the initial purchasers in reliance on the exemption from registration provided by Section (4)(a)(2) of the Securities Act of 1933, as amended, for resale pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. As a result of this issuance, the Company received net proceeds of $247 million after underwriting discount.
The Series A Preferred Stock has no stated maturity and is not subject to any sinking fund or other obligation of the Company. Holders of the Series A Preferred Stock will be entitled to receive dividend payments when, and if, declared by the Company’s Board of Directors or a duly authorized committee thereof. Any such dividends will be payable on a semi-annual basis at an annual rate equal to 5.500%. On April 6, 2020, the Series A Preferred Stock converts to a quarterly floating-rate basis equal to three-month U.S. dollar LIBOR on the related dividend determination date plus 3.960%.
Citizens may redeem the Series A Preferred Stock, in whole or in part on any dividend payment date, on or after April 6, 2020 or, in whole but not in part, at any time within 90 days following a regulatory capital treatment event at a redemption price equal to $1,000 per share, plus any declared and unpaid dividends, without accumulation of any undeclared dividends. Citizens may not redeem shares of the Series A Preferred Stock without obtaining the prior approval of the FRBG if then required under applicable capital guidelines.
Shares of the Series A Preferred Stock have priority over the Company's common stock with regard to the payment of dividends and as such, the Company may not pay dividends on or repurchase, redeem, or otherwise acquire for consideration shares of its common stock unless dividends for the latest completed dividend period for the Series A Preferred Stock have been declared and paid (or declared and sufficient funds have been set aside to make payment). Except in certain limited circumstances, the Series A Preferred Stock does not have any voting rights.

Treasury Stock

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

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

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

NOTE 9 - EMPLOYEE BENEFITS

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

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

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

NOTE 10 - INCOME TAXES

Income Tax Expense

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

Deferred Tax Liability

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

NOTE 11 - DERIVATIVES

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

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

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

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

[1] The notional or contractual amount of interest rate derivatives and foreign exchange contracts is the amount upon which interest and other payments under the contract are based. Notional amounts are typically not exchanged. Therefore, notional amounts should not be taken as the measure of credit or market risk, as they do not measure the true economic risk of these contracts.

[2] Amounts represent the impact of legally enforceable master netting agreements that allow the Company to settle positive and negative positions.

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

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

Institutional derivatives

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

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

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

Customer derivatives

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

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Residential loan derivatives

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

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

Derivatives designated as hedging instruments

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

Fair value hedges

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

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

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

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

Cash flow hedges

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

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

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

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

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

Economic hedges

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

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

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

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

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

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

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NOTE 12 - COMMITMENTS AND CONTINGENCIES

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

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

Commitments to Extend Credit

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

Letters of Credit

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

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

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

Marketing Rights

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

Risk Participation Agreements

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

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

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

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

Other Commitments

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

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

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

Contingencies

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

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

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

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

Consumer Products Matters

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

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

NOTE 13 - RELATED PARTY TRANSACTIONS

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

NOTE 14 - FAIR VALUE MEASUREMENTS

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

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

Fair Value Option

Residential Mortgage Loans Held for Sale

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

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

Statements of Operations. The Company recognized changes in fair value in mortgage banking income of $1 million and $4 million for the three months ended September 30, 2016 and 2015, respectively. The Company recognized changes in fair value in mortgage banking income of $13 million and $2 million for the nine months ended September 30, 2016 and 2015, respectively.

Interest income on residential mortgage loans held for sale is calculated based on the contractual interest rate of the loan and is recorded in interest income.

Commercial and Commercial Real Estate Loans Held for Sale

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

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

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

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

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

Recurring Fair Value Measurements

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

Securities available for sale

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

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

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

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

Residential loans held for sale

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

Commercial loans held for sale

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

Derivatives

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

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

Money Market Mutual Fund

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

Other investments

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

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

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

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

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

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

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

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

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

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Nonrecurring Fair Value Measurements

The following valuation techniques are utilized to measure significant assets for which the Company utilizes fair value on a nonrecurring basis:

Impaired Loans

The carrying amount of collateral-dependent impaired loans is compared to the appraised value of the collateral less costs to dispose and is classified as Level 2. Any excess of carrying amount over the appraised value is charged to the ALLL.

Mortgage Servicing Rights

MSRs do not trade in an active market with readily observable prices. MSRs are classified as Level 3 since the valuation methodology utilizes significant unobservable inputs. The fair value was calculated using a discounted cash flow model. Refer to Note 1 "Significant Accounting Policies" to the Company's audited Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2015 and Note 6 "Mortgage Banking" for more information.

Foreclosed assets

Foreclosed assets consist primarily of residential properties. Foreclosed assets are carried at the lower of carrying value or fair value less costs to dispose. Fair value is based upon independent market prices or appraised values of the collateral and is classified as Level 2.

The following table presents gains (losses) on assets and liabilities measured at fair value on a nonrecurring basis and recorded in earnings:

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

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

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

Disclosures about Fair Value of Financial Instruments

Following is a description of valuation methodologies used to estimate the fair value of financial instruments for disclosure purposes (these instruments are not recorded in the financial statements at fair value):

Securities held to maturity

The fair value of securities classified as HTM is estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flow. The pricing models used to value these securities generally begin with market prices (or rates) for similar instruments and make adjustments based on the unique characteristics of the instrument being valued. These adjustments reflect assumptions made regarding the sensitivity of each security's value to changes in interest rates and prepayment speeds.

Other investment securities, at cost

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

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Loans and leases

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

Other loans held for sale

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

Deposits

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

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

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

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

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

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

NOTE 15 - REGULATORY MATTERS

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

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

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

[1] "Common equity tier 1 capital ratio" represents CET1 divided by total risk-weighted assets as defined under Basel III Standardized approach.
[2] "Tier 1 capital ratio" is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under Basel III Standardized approach.
[3] "Total capital ratio" is total capital divided by total risk-weighted assets as defined under Basel III Standardized approach.
[4] "Tier 1 leverage ratio" is tier 1 capital divided by quarterly average total assets as defined under Basel III Standardized approach.
[5] "Minimum Capital ratio" for 2016 includes capital conservation buffer of 0.625%.

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

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

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

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

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

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

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

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

NOTE 16 - EXIT COSTS AND RESTRUCTURING RESERVES

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

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

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

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

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

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

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

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

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

September 30, 2015

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