

CITIZENS FINANCIAL GROUP INC/RI
Form 10-Q
August 05, 2016

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

For the Quarterly Period Ended
June 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 (I.R.S. Employer
Incorporation or Organization) 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.

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).

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 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 No

There were 519,470,882 shares of Registrant's common stock (\$0.01 par value) outstanding on August 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
IPO	Initial Public Offering

CITIZENS FINANCIAL GROUP, INC.

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
OIS	Overnight Index Swap
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
ROTCE	Return on Average Tangible Common Equity
RPA	Risk Participation Agreement
SBO	Serviced by Others loan portfolio
SEC	United States Securities and Exchange Commission
SVaR	Stressed Value at Risk
TDR	Troubled Debt Restructuring
VaR	Value at Risk

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PART I. FINANCIAL INFORMATION

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CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data)	June 30, 2016	December 31, 2015
ASSETS:		
Cash and due from banks	\$976	\$1,099
Interest-bearing cash and due from banks	2,679	1,986
Interest-bearing deposits in banks	727	356
Securities available for sale, at fair value (including \$245 and \$4,283 pledged to creditors, respectively) (a)	18,479	17,884
Securities held to maturity (including \$0 and \$135 pledged to creditors, respectively, and fair value of \$5,136 and \$5,297, respectively) (a)	4,973	5,258
Other investment securities, at fair value	73	70
Other investment securities, at cost	873	863
Loans held for sale, at fair value	478	325
Other loans held for sale	372	40
Loans and leases	103,551	99,042
Less: Allowance for loan and lease losses	1,246	1,216
Net loans and leases	102,305	97,826
Derivative assets	1,312	625
Premises and equipment, net	551	595
Bank-owned life insurance	1,587	1,564
Goodwill	6,876	6,876
Due from broker	132	—
Other assets	2,790	2,841
TOTAL ASSETS	\$145,183	\$138,208
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$27,108	\$27,649
Interest-bearing	79,149	74,890
Total deposits	106,257	102,539
Federal funds purchased and securities sold under agreements to repurchase	717	802
Other short-term borrowed funds	2,770	2,630
Derivative liabilities	1,010	485
Deferred taxes, net	961	730
Long-term borrowed funds	11,810	9,886
Due to broker	86	—
Other liabilities	1,346	1,490
TOTAL LIABILITIES	\$124,957	\$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 June 30, 2016 and December 31, 2015	\$247	\$247
Common stock:		
	6	6

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\$0.01 par value, 1,000,000,000 shares authorized, 564,437,963 shares issued and 529,094,976 shares outstanding at June 30, 2016 and 1,000,000,000 shares authorized, 563,117,415 shares issued and 527,774,428 shares outstanding at December 31, 2015

Additional paid-in capital	18,735	18,725
Retained earnings	2,255	1,913
Treasury Stock, at cost, 35,342,987 shares at June 30, 2016 and December 31, 2015, respectively	(858)	(858)
Accumulated other comprehensive loss	(159)	(387)
TOTAL STOCKHOLDERS' EQUITY	\$20,226	\$19,646
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$145,183	\$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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(in millions, except share and per-share data)				
INTEREST INCOME:				
Interest and fees on loans and leases	\$896	\$790	\$1,764	\$1,569
Interest and fees on loans held for sale, at fair value	3	3	6	5
Interest and fees on other loans held for sale	4	3	5	4
Investment securities	141	155	286	314
Interest-bearing deposits in banks	2	1	4	2
Total interest income	1,046	952	2,065	1,894
INTEREST EXPENSE:				
Deposits	63	60	123	112
Federal funds purchased and securities sold under agreements to repurchase	—	2	1	9
Other short-term borrowed funds	12	19	23	34
Long-term borrowed funds	48	31	91	63
Total interest expense	123	112	238	218
Net interest income	923	840	1,827	1,676
Provision for credit losses	90	77	181	135
Net interest income after provision for credit losses	833	763	1,646	1,541
NONINTEREST INCOME:				
Service charges and fees	150	139	294	274
Card fees	51	60	101	112
Trust and investment services fees	38	41	75	77
Capital markets fees	35	30	57	52
Foreign exchange and letter of credit fees	21	22	42	45
Mortgage banking fees	25	30	43	63
Bank-owned life insurance income	13	14	26	26
Securities gains, net	4	9	13	17
Net securities impairment losses recognized in earnings	(7)	(2)	(8)	(3)
Other income	25	17	42	44
Total noninterest income	355	360	685	707
NONINTEREST EXPENSE:				
Salaries and employee benefits	432	411	857	830
Outside services	86	99	177	178
Occupancy	76	90	152	170
Equipment expense	64	65	129	128
Amortization of software	41	37	80	73
Other operating expense	128	139	243	272
Total noninterest expense	827	841	1,638	1,651
Income before income tax expense	361	282	693	597
Income tax expense	118	92	227	198
NET INCOME	\$243	\$190	\$466	\$399
Net income available to common stockholders	\$243	\$190	\$459	\$399
Weighted-average common shares outstanding:				
Basic	528,968,370	529,248,519	528,519,589	529,986,653
Diluted	530,365,309	530,366,871	530,396,871	531,804,268

Per common share information:

Basic earnings	\$0.46	\$0.35	\$0.87	\$0.74
Diluted earnings	0.46	0.35	0.87	0.73
Dividends declared and paid	0.12	0.10	0.22	0.20

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 COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2016	2015	2016	2015
Net income	\$243	\$190	\$466	\$399
Other comprehensive income (loss):				
Net unrealized derivative instrument gains (losses) arising during the periods, net of income taxes of \$8, (\$3), \$29 and \$36, respectively	13	(5)	46	60
Reclassification adjustment for net derivative gains included in net income, net of income taxes of (\$4), (\$1), (\$10) and (\$2), respectively	(9)	(2)	(17)	(4)
Net unrealized securities available for sale gains (losses) arising during the periods, net of income taxes of \$39, (\$66), \$131 and (\$12), respectively	64	(110)	218	(20)
Other-than-temporary impairment not recognized in earnings on securities, net of income taxes of \$2, \$0, (\$13) and (\$11), respectively	4	1	(21)	(18)
Reclassification of net securities losses (gains) to net income, net of income taxes of \$1, (\$2), (\$2) and (\$5), respectively	2	(5)	(3)	(9)
Defined benefit pension plans:				
Amortization of actuarial loss, net of income taxes of \$1, \$2, \$3 and \$3, respectively	3	2	5	4
Total other comprehensive income (loss), net of income taxes	77	(119)	228	13
Total comprehensive income	\$320	\$71	\$694	\$412

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	Common	Additional	Retained	Treasury	Accumulated	Total	
	Stock	Stock						Paid-in
	Shares	Shares	Capital		at Cost	Comprehensive		
		Amount				Income (Loss)		
Balance at January 1, 2015	\$—	546	\$6	\$18,676	\$1,294	(\$336)	(\$372)	\$19,268
Dividends to common stockholders	—	—	—	—	(48)	—	—	(48)
Dividends to RBS	—	—	—	—	(60)	—	—	(60)
Issuance of preferred stock	247	—	—	—	—	—	—	247
Treasury stock purchased	—	(10)	—	—	—	(250)	—	(250)
Share-based compensation plans	—	1	—	34	—	(21)	—	13
Employee stock purchase plan shares purchased	—	—	—	4	—	—	—	4
Total comprehensive income:								
Net income	—	—	—	—	399	—	—	399
Other comprehensive income	—	—	—	—	—	—	13	13
Total comprehensive income	—	—	—	—	399	—	13	412
Balance at June 30, 2015	\$247	537	\$6	\$18,714	\$1,585	(\$607)	(\$359)	\$19,586
Balance at January 1, 2016	\$247	528	\$6	\$18,725	\$1,913	(\$858)	(\$387)	\$19,646
Dividends to common stockholders	—	—	—	—	(117)	—	—	(117)
Dividend to preferred stockholders	—	—	—	—	(7)	—	—	(7)
Share-based compensation plans	—	1	—	5	—	—	—	5
Employee stock purchase plan shares purchased	—	—	—	5	—	—	—	5
Total comprehensive income:								
Net income	—	—	—	—	466	—	—	466
Other comprehensive income	—	—	—	—	—	—	228	228
Total comprehensive income	—	—	—	—	466	—	228	694
Balance at June 30, 2016	\$247	529	\$6	\$18,735	\$2,255	(\$858)	(\$159)	\$20,226

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

CITIZENS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Six Months Ended June 30,	
	2016	2015
OPERATING ACTIVITIES		
Net income	\$466	\$399
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	181	135
Originations of mortgage loans held for sale	(1,135)	(1,182)
Proceeds from sales of mortgage loans held for sale	1,022	1,111
Purchases of commercial loans held for sale	(735)	(632)
Proceeds from sales of commercial loans held for sale	739	594
Amortization of terminated cash flow hedges	16	9
Depreciation, amortization and accretion	245	234
Mortgage servicing rights valuation charge-off (recovery)	4	(7)
Securities impairment	8	3
Deferred income taxes	94	56
Share-based compensation	11	15
Net gain on sales of:		
Debt securities	(13)	(17)
Marketable equity securities available for sale	—	(3)
Premises and equipment	(2)	—
Increase in other assets	(450)	(138)
Increase (decrease) in other liabilities	253	(62)
Net cash provided by operating activities	704	515
INVESTING ACTIVITIES		
Investment securities:		
Purchases of securities available for sale	(2,355)	(4,089)
Proceeds from maturities and paydowns of securities available for sale	1,611	1,804
Proceeds from sales of securities available for sale	375	1,251
Purchases of securities held to maturity	—	(811)
Proceeds from maturities and paydowns of securities held to maturity	290	394
Purchases of other investment securities, at fair value	(114)	—
Proceeds from sales of other investment securities, at fair value	109	—
Purchases of other investment securities, at cost	(62)	(14)
Proceeds from sales of other investment securities, at cost	52	20
Net (increase) decrease in interest-bearing deposits in banks	(371)	184
Net increase in loans and leases	(5,045)	(3,573)
Net increase in bank-owned life insurance	(23)	(16)
Premises and equipment:		
Purchases	(22)	(43)
Proceeds from sales	3	15
Capitalization of software	(85)	(92)
Net cash used in investing activities	(5,637)	(4,970)
FINANCING ACTIVITIES		
Net increase in deposits	3,718	4,908
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(85)	(492)

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Net decrease in other short-term borrowed funds	(1,370)	(251)
Proceeds from issuance of long-term borrowed funds	6,995	—
Repayments of long-term borrowed funds	(3,631)	(6)
Treasury stock purchased	—	(250)
Net proceeds from issuance of preferred stock	—	247
Dividends declared and paid to common stockholders	(117)	(108)
Dividends declared and paid to preferred stockholders	(7)	—
Net cash provided by financing activities	5,503	4,048
Increase (decrease) in cash and cash equivalents	570	(407)
Cash and cash equivalents at beginning of period	3,085	3,276
Cash and cash equivalents at end of period	\$3,655	\$2,869

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

CITIZENS FINANCIAL GROUP, INC.

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 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 unaudited interim 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 unaudited interim 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 unaudited interim 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 unaudited interim 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 unaudited

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

In February 2016, the FASB issued ASU 2016-02 “Leases.” 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 unaudited interim Consolidated Financial Statements.

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

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 unaudited interim Consolidated Financial Statements.

NOTE 2 - SECURITIES

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

(in millions)	June 30, 2016				December 31, 2015			
	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	9	—	—	9	9	—	—	9
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	17,588	401	(8)	17,981	17,234	153	(67)	17,320
Other/non-agency	489	2	(34)	457	555	4	(37)	522
Total mortgage-backed securities	18,077	403	(42)	18,438	17,789	157	(104)	17,842
Total debt securities available for sale	18,101	403	(42)	18,462	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	\$18,118	\$403	(\$42)	\$18,479	\$17,831	\$157	(\$104)	\$17,884
Securities Held to Maturity								
Mortgage-backed securities:								
Federal agencies and U.S. government sponsored entities	\$3,912	\$119	\$—	\$4,031	\$4,105	\$27	(\$11)	\$4,121
Other/non-agency	1,061	44	—	1,105	1,153	23	—	1,176
Total securities held to maturity	\$4,973	\$163	\$—	\$5,136	\$5,258	\$50	(\$11)	\$5,297
Other Investment Securities, at Fair Value								
Money market mutual fund	\$68	\$—	\$—	\$68	\$65	\$—	\$—	\$65
Other investments	5	—	—	5	5	—	—	5
Total other investment securities, at fair value	\$73	\$—	\$—	\$73	\$70	\$—	\$—	\$70
Other Investment Securities, at Cost								
Federal Reserve Bank stock	\$463	\$—	\$—	\$463	\$468	\$—	\$—	\$468
Federal Home Loan Bank stock	410	—	—	410	395	—	—	395
Total other investment securities, at cost	\$873	\$—	\$—	\$873	\$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 June 30, 2016		Six Months Ended June 30, 2015	
	2016	2015	2016	2015
Other-than-temporary impairment:				
Total other-than-temporary impairment losses	(\$1)	(\$1)	(\$42)	(\$32)
Portions of loss recognized in other comprehensive income (before taxes)	(6)	(1)	34	29
Net securities impairment losses recognized in earnings	(\$7)	(\$2)	(\$8)	(\$3)

The following tables summarize those 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:

(dollars in millions)	June 30, 2016								
	Less than 12 Months		12 Months or Longer		Total				
	Number of Fair Value Issues	Gross Unrealized Losses	Number of Fair Value Issues	Gross Unrealized Losses	Number of Fair Value Issues	Gross Unrealized Losses			
Mortgage-backed securities:									
Federal agencies and U.S. government sponsored entities	7	\$95	\$—	33	\$734	(\$8)	40	\$829	(\$8)
Other/non-agency	4	19	—	20	330	(34)	24	349	(34)
Total mortgage-backed securities	11	114	—	53	1,064	(42)	64	1,178	(42)
Total	11	\$114	\$—	53	\$1,064	(\$42)	64	\$1,178	(\$42)

(dollars in millions)	December 31, 2015								
	Less than 12 Months		12 Months or Longer		Total				
	Number of Fair Value Issues	Gross Unrealized Losses	Number of Fair Value Issues	Gross Unrealized Losses	Number of Fair Value Issues	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 has determined that the present value of the debt security's expected cash flows is less than its amortized cost basis, an other-than-temporary impairment is

deemed to have occurred. The amount of impairment loss that is recognized in current period earnings is dependent on the Company's intent to sell (or not sell) the debt security.

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CITIZENS FINANCIAL GROUP, INC.
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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 likely 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 cash flows that have currently been projected. 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. This governance committee determines whether security impairments are other-than-temporary based on this review.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2016	2015	2016	2015
Cumulative balance at beginning of period	\$66	\$62	\$66	\$62
Credit impairments recognized in earnings on securities that have been previously impaired	7	2	8	3
Reductions due to increases in cash flow expectations on impaired securities	—	(2)	(1)	(3)
Cumulative balance at end of period	\$73	\$62	\$73	\$62

Cumulative credit losses recognized in earnings for impaired AFS debt securities held as of June 30, 2016 and 2015 were \$73 million and \$62 million, respectively. There were no credit losses recognized in earnings for the Company's HTM portfolio as of June 30, 2016 and 2015. For the three months ended June 30, 2016 and 2015, the Company recognized credit related other-than-temporary-impairment losses in earnings of \$7 million and \$2 million respectively, related to non-agency MBS in the AFS portfolio. The \$5 million increase from June 30, 2015 to June 30, 2016 is primarily attributable to a one-time adjustment tied to a new model implementation. This adjustment is 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. For the six months ended June 30, 2016 and 2015, the Company recognized credit related other-than-temporary impairment losses in earnings of \$8 million and \$3 million, respectively. The other-than-temporary impairment losses for the six months ended June 30, 2016 include the impact of the one-time adjustment tied to the new model implementation discussed above. There were no credit impaired debt securities sold during the three and six months ended June 30, 2016 and 2015. Reductions in credit losses due to increases in cash flow expectations were none and \$2 million for the three months ended June 30, 2016 and 2015, respectively, and \$1 million and \$3 million for the six months ended June 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 likely 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 the 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 likely 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, \$34 million and \$29 million of pre-tax non-credit related losses were deferred in OCI for the six months ended June 30, 2016 and 2015, respectively.

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

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

(in millions)	June 30, 2016				Total
	Distribution of Maturities				
	1 Year or Less	5-10 Years	After 10 Years		
Amortized Cost:					
Debt securities available for sale					
U.S. Treasury and other	\$15	\$—	\$—	\$—	\$15
State and political subdivisions	—	—	—	9	9
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	15	36	1,668	15,869	17,588
Other/non-agency	—	50	2	437	489
Total debt securities available for sale	30	86	1,670	16,315	18,101
Debt securities held to maturity					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	3,912	3,912
Other/non-agency	—	—	—	1,061	1,061
Total debt securities held to maturity	—	—	—	4,973	4,973
Total amortized cost of debt securities	\$30	\$86	\$1,670	\$21,288	\$23,074
Fair Value:					
Debt securities available for sale					
U.S. Treasury and other	\$15	\$—	\$—	\$—	\$15
State and political subdivisions	—	—	—	9	9
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	15	38	1,710	16,218	17,981
Other/non-agency	—	50	3	404	457
Total debt securities available for sale	30	88	1,713	16,631	18,462
Debt securities held to maturity					
Mortgage-backed securities:					
Federal agencies and U.S. government sponsored entities	—	—	—	4,031	4,031
Other/non-agency	—	—	—	1,105	1,105
Total debt securities held to maturity	—	—	—	5,136	5,136
Total fair value of debt securities	\$30	\$88	\$1,713	\$21,767	\$23,598

The following table reports the amounts recognized in interest income from investment securities on the Consolidated Statements of Operations:

(in millions)	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	2016	2015	2016	2015
Taxable	\$141	\$155	\$286	\$314

Non-taxable	—	—	—	—
Total interest income from investment securities	\$141	\$155	\$286	\$314

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

Realized gains and losses on securities are shown below:

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2015
(in millions)		
Gains on sale of debt securities	\$4 \$10	\$13 \$22
Losses on sale of debt securities	— (1)	— (5)
Debt securities gains, net	\$4 \$9	\$13 \$17
Equity securities gains	\$— \$1	\$— \$3

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

	June 30, 2016	December 31, 2015
(in millions)		
	Amortized Cost	Fair Value
Pledged against repurchase agreements	\$705	\$720
Pledged against FHLB borrowed funds	1,070	1,114
Pledged against derivatives, to qualify for fiduciary powers, and to secure public and other deposits as required by law	4,236	4,341
	Amortized Cost	Fair Value
	\$805	\$808
	1,163	1,186
	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 financial statements. When permitted by GAAP, the Company offsets the short-term receivables associated with its reverse repurchase agreements with the short-term payables associated with its repurchase agreements.

The effects of this offsetting on the Consolidated Balance Sheets are presented in the following table:

	June 30, 2016		December 31, 2015	
	Gross Assets (Liabilities) Offset	Net Amounts of Assets (Liabilities)	Gross Assets (Liabilities) Offset	Net Amounts of Assets (Liabilities)
(in millions)				
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 \$5 million in securitizations of mortgage loans retained in the investment portfolio for the three and six months ended June 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.

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

NOTE 3 - LOANS AND LEASES

A summary of the loans and leases portfolio follows:

(in millions)	June 30, 2016	December 31, 2015
Commercial	\$35,927	\$33,264
Commercial real estate	9,825	8,971
Leases	3,805	3,979
Total commercial	49,557	46,214
Residential mortgages	13,855	13,318
Home equity loans	2,177	2,557
Home equity lines of credit	14,418	14,674
Home equity loans serviced by others ⁽¹⁾	860	986
Home equity lines of credit serviced by others ⁽¹⁾	273	389
Automobile	14,075	13,828
Student	5,516	4,359
Credit cards	1,613	1,634
Other retail	1,207	1,083
Total retail	53,994	52,828
Total loans and leases ^{(2) (3)}	\$103,551	\$99,042

⁽¹⁾ The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

⁽²⁾ Excluded from the table above are loans held for sale totaling \$850 million and \$365 million as of June 30, 2016 and December 31, 2015, respectively.

⁽³⁾ Mortgage loans serviced for others by the Company's subsidiaries are not included above and amounted to \$17.2 billion and \$17.6 billion at June 30, 2016 and December 31, 2015, respectively.

During the three months ended June 30, 2016, the Company purchased \$348 million of student loans, \$200 million of automobile loans and \$63 million of residential mortgages. During the three months ended June 30, 2015, the Company purchased \$202 million of student loans, \$416 million of automobile loans and \$387 million of residential mortgages. During the six months ended June 30, 2016, the Company purchased \$717 million of student loans, \$334 million of automobile loans and \$183 million of residential mortgages. During the six months ended June 30, 2015, the Company purchased \$463 million of student loans, \$809 million of automobile loans and \$636 million of residential mortgages.

During the three months ended June 30, 2016, the Company sold \$108 million of residential mortgage loans and \$45 million of commercial loans. During the three months ended June 30, 2015, the Company sold \$114 million of commercial loans. During the six months ended June 30, 2016, the Company sold \$281 million of residential mortgage loans and \$118 million of commercial loans. During the six months ended June 30, 2015, the Company sold \$273 million of residential mortgage loans and \$225 million of commercial loans.

Loans held for sale at fair value totaled \$478 million and \$325 million at June 30, 2016 and December 31, 2015, respectively, and consisted of residential mortgages originated for sale of \$424 million and the commercial trading portfolio of \$54 million as of June 30, 2016. As of December 31, 2015, residential mortgages originated for sale were \$268 million and the commercial trading portfolio totaled \$57 million.

Other loans held for sale, at lower of cost or market value, totaled \$372 million and \$40 million as of June 30, 2016 and December 31, 2015, respectively. Other loans held for sale, as of June 30, 2016, contained \$322 million of TDRs, including \$262 million of residential mortgages and \$60 million of home equity loans. Other loans held for sale also included commercial loans associated with the Company's syndications business of \$50 million as of June 30, 2016 compared with \$40 million as of December 31, 2015.

Loans pledged as collateral for FHLB borrowed funds totaled \$23.2 billion at June 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 \$16.6 billion and \$15.9 billion at June 30, 2016 and December 31, 2015, respectively.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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.

The following is a summary of changes in the allowance for credit losses:

(in millions)	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
	Comm	Recial	Total	Comm	Recial	Total
Allowance for loan and lease losses, beginning of period	\$633	\$591	\$1,224	\$596	\$620	\$1,216
Charge-offs	(7)	(106)	(113)	(20)	(219)	(239)
Recoveries	5	43	48	9	82	91
Net charge-offs	(2)	(63)	(65)	(11)	(137)	(148)
Provision charged to income	45	42	87	91	87	178
Allowance for loan and lease losses, end of period	676	570	1,246	676	570	1,246
Reserve for unfunded lending commitments, beginning of period	58	—	58	58	—	58
Credit for unfunded lending commitments	3	—	3	3	—	3
Reserve for unfunded lending commitments as of period end	61	—	61	61	—	61
Total allowance for credit losses as of period end	\$737	\$570	\$1,307	\$737	\$570	\$1,307
	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
(in millions)	Comm	Recial	Total	Comm	Recial	Total
Allowance for loan and lease losses, beginning of period	\$578	\$624	\$1,202	\$544	\$651	\$1,195
Charge-offs	(15)	(106)	(121)	(21)	(215)	(236)
Recoveries	8	35	43	36	68	104
Net recoveries (charge-offs)	(7)	(71)	(78)	15	(147)	(132)
Sales/Other	—	—	—	—	(2)	(2)
Provision charged to income	(6)	83	77	6	134	140
Allowance for loan and lease losses, end of period	565	636	1,201	565	636	1,201
Reserve for unfunded lending commitments, beginning of period	56	—	56	61	—	61
Provision for unfunded lending commitments	—	—	—	(5)	—	(5)
Reserve for unfunded lending commitments as of period end	56	—	56	56	—	56
Total allowance for credit losses as of period end	\$621	\$636	\$1,257	\$621	\$636	\$1,257

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

(in millions)	June 30, 2016			December 31, 2015		
	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	\$408	\$802	\$1,210	\$218	\$1,165	\$1,383
Formula-based evaluation	49,149	53,192	102,341	45,996	51,663	97,659
Total	\$49,557	\$53,994	\$103,551	\$46,214	\$52,828	\$99,042

The following is a summary of the allowance for credit losses by evaluation method:

(in millions)	June 30, 2016			December 31, 2015		
	Commercial	Retail	Total	Commercial	Retail	Total
Individually evaluated	\$52	\$79	\$131	\$36	\$101	\$137
Formula-based evaluation	685	491	1,176	618	519	1,137
Allowance for credit losses	\$737	\$570	\$1,307	\$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 that indicates an increased probability of future loss. 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 classes of commercial loans and leases based on regulatory classification ratings is as follows:

(in millions)	June 30, 2016				
	Pass	Criticized Special Mention	Substandard	Doubtful	Total
Commercial	\$33,931	\$855	\$1,015	\$126	\$35,927
Commercial real estate	9,281	318	156	70	9,825
Leases	3,603	80	122	—	3,805
Total	\$46,815	\$1,253	\$1,293	\$196	\$49,557

(in millions)	December 31, 2015				
	Pass	Criticized 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 as follows:
 June 30, 2016

(in millions)	Current	90 Days or More Past Due				Total
		1-29 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	
Residential mortgages	\$13,571	\$89	\$40	\$10	\$145	\$13,855
Home equity loans	1,937	133	20	8	79	2,177
Home equity lines of credit	13,755	388	44	24	207	14,418
Home equity loans serviced by others ⁽¹⁾	781	48	10	4	17	860
Home equity lines of credit serviced by others ⁽¹⁾	184	37	12	5	35	273
Automobile	12,959	926	122	31	37	14,075
Student	5,340	105	18	11	42	5,516
Credit cards	1,539	42	10	8	14	1,613
Other retail	1,149	44	6	4	4	1,207
Total	\$51,215	\$1,812	\$282	\$105	\$580	\$53,994

⁽¹⁾ The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

December 31, 2015

(in millions)	Current	90 Days or More Past Due				Total
		1-29 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	
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 ⁽¹⁾	886	60	14	6	20	986
Home equity lines of credit serviced by others ⁽¹⁾	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

⁽¹⁾ The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

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

Nonperforming Assets

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

(in millions)	Nonperforming ⁽¹⁾		Accruing and 90 days or more past due	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Commercial	\$277	\$71	\$—	\$1
Commercial real estate	70	77	4	—
Leases	—	—	—	—
Total commercial	347	148	4	1
Residential mortgages ^{(2) (3) (4)}	174	331	15	—
Home equity loans ⁽²⁾	104	135	—	—
Home equity lines of credit	251	272	—	—
Home equity loans serviced by others ⁽⁵⁾	33	38	—	—
Home equity lines of credit serviced by others ⁽⁵⁾	38	32	—	—
Automobile	43	42	—	—
Student	37	41	6	6
Credit card	14	16	—	—
Other retail	3	5	1	2
Total retail	697	912	22	8
Total	\$1,044	\$1,060	\$26	\$9

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

⁽²⁾ Nonperforming balances at June 30, 2016 excluded \$71 million of troubled debt restructured loans held for sale, including \$54 million of residential mortgages and \$17 million of home equity loans.

⁽³⁾ 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 June 30, 2016, \$15 million of these loans were accruing and 90 days or more past due.

⁽⁴⁾ 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 June 30, 2016 these loans totaled \$34 million. These loans are consolidated on the Company's Consolidated Balance Sheets.

⁽⁵⁾ The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

A summary of other nonperforming assets is as follows:

(in millions)	June 30, 2016	December 31, 2015
Other nonperforming assets, net of valuation allowance:		
Commercial	\$1	\$1
Retail	47	45
Other nonperforming assets, net of valuation allowance	\$48	\$46

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

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

A summary of key performance indicators is as follows:

	June 30, 2016		December 31, 2015	
Nonperforming commercial loans and leases as a percentage of total loans and leases ⁽¹⁾	0.34	%	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⁾	1.01	%	1.07	%
Nonperforming commercial assets as a percentage of total assets ⁽¹⁾	0.24	%	0.11	%
Nonperforming retail assets as a percentage of total assets ⁽¹⁾	0.51		0.69	
Total nonperforming assets as a percentage of total assets ⁽¹⁾	0.75	%	0.80	%

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

The recorded investment in mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings are in process was \$211 million and \$257 million as of June 30, 2016 and December 31, 2015, respectively.

The following is an analysis of the age of the past due amounts (accruing and nonaccruing):

(in millions)	June 30, 2016				December 31, 2015			
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due
Commercial	\$8	\$23	\$277	\$308	\$9	\$4	\$71	\$84
Commercial real estate	2	5	74	81	30	3	77	110
Leases	1	—	—	1	9	1	—	10
Total commercial	11	28	351	390	48	8	148	204
Residential mortgages	40	10	145	195	54	16	246	316
Home equity loans	20	8	79	107	32	12	104	148
Home equity lines of credit	44	24	207	275	60	20	205	285
Home equity loans serviced by others ⁽¹⁾	10	4	17	31	14	6	20	40
Home equity lines of credit serviced by others ⁽¹⁾	12	5	35	52	10	6	29	45
Automobile	122	31	37	190	127	32	35	194
Student	18	11	42	71	19	11	41	71
Credit cards	10	8	14	32	11	9	16	36
Other retail	6	4	4	14	8	4	5	17
Total retail	282	105	580	967	335	116	701	1,152
Total	\$293	\$133	\$931	\$1,357	\$383	\$124	\$849	\$1,356

⁽¹⁾ The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Impaired loans include: (1) nonaccruing larger balance commercial loans (greater than \$3 million carrying value); and (2) commercial and retail TDRs (excluding loans held for sale). The following is a summary of impaired loan information by class:

(in millions)	June 30, 2016				Total Recorded Investment in Impaired Loans
	Impaired Loans Without a Related Allowance	Impaired Loans With an Impaired Related Allowance	Impaired Loans Without a Related Allowance	Unpaid Contractual Balance	
Commercial	\$216	\$46	\$139	\$391	\$355
Commercial real estate	42	6	11	56	53
Total commercial	258	52	150	447	408
Residential mortgages	34	4	130	214	164
Home equity loans	51	5	107	198	158
Home equity lines of credit	26	3	160	223	186
Home equity loans serviced by others ⁽¹⁾	45	7	21	79	66
Home equity lines of credit serviced by others ⁽¹⁾	3	—	7	14	10
Automobile	4	—	14	23	18
Student	161	46	1	162	162
Credit cards	26	11	—	27	26
Other retail	10	3	2	14	12
Total retail	360	79	442	954	802
Total	\$618	\$131	\$592	\$1,401	\$1,210

⁽¹⁾ The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

(in millions)	December 31, 2015				Total Recorded Investment in Impaired Loans
	Impaired Loans Without a Related Allowance	Impaired Loans With an Impaired Related Allowance	Impaired Loans Without a Related Allowance	Unpaid Contractual Balance	
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 ⁽¹⁾	50	8	24	88	74
Home equity lines of credit serviced by others ⁽¹⁾	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
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⁽¹⁾ The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

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

Additional information on impaired loans is as follows:

(in millions)	Three Months Ended June 30,			
	2016		2015	
	Number of Recorded Receivables	Average Recorded Receivable	Number of Recorded Receivables	Average Recorded Receivable
Commercial	\$2	\$324	\$1	\$129
Commercial real estate	—	58	—	51
Total commercial	2	382	1	180
Residential mortgages	1	160	4	436
Home equity loans	1	158	3	272
Home equity lines of credit	2	184	1	151
Home equity loans serviced by others ⁽¹⁾	1	66	1	84
Home equity lines of credit serviced by others ⁽¹⁾	—	10	—	10
Automobile	—	15	—	12
Student	2	161	2	164
Credit cards	1	26	—	30
Other retail	—	13	—	18
Total retail	8	793	11	1,177
Total	\$10	\$1,175	\$12	\$1,357

⁽¹⁾ The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

(in millions)	Six Months Ended June 30,			
	2016		2015	
	Number of Recorded Receivables	Average Recorded Receivable	Number of Recorded Receivables	Average Recorded Receivable
Commercial	\$3	\$248	\$1	\$133
Commercial real estate	—	61	1	54
Total commercial	3	309	2	187
Residential mortgages	2	156	8	433
Home equity loans	3	154	5	266
Home equity lines of credit	3	182	2	150
Home equity loans serviced by others ⁽¹⁾	2	67	2	84
Home equity lines of credit serviced by others ⁽¹⁾	—	9	—	10
Automobile	—	14	—	11
Student	4	160	4	162
Credit cards	1	26	1	29
Other retail	—	13	—	18
Total retail	15	781	22	1,163
Total	\$18	\$1,090	\$24	\$1,350

⁽¹⁾ The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

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

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 forbearance, 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, to the loan's recorded investment. Any excess of recorded investment over the present value of expected future cash flows or collateral value is recognized by creating a valuation allowance or increasing an existing valuation allowance. 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.

Commercial TDRs were \$126 million on June 30, 2016 and \$155 million on December 31, 2015. Retail TDRs totaled \$802 million on June 30, 2016 and \$1.2 billion on December 31, 2015. Other loans held for sale, as of June 30, 2016, contained \$322 million of TDRs, including \$262 million of residential mortgages and \$60 million of home equity loans. Commitments to lend additional funds to debtors owing receivables which were TDRs were \$30 million and \$15 million on June 30, 2016 and December 31, 2015, respectively.

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

(dollars in millions)	Primary Modification Types					
	Interest Rate Reduction ⁽¹⁾		Maturity Extension ⁽²⁾			
	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	\$—	\$—	28	\$4	\$4
Commercial real estate	—	—	—	—	—	—
Total commercial	3	—	—	28	4	4
Residential mortgages	3	1	1	102	2	2
Home equity loans	15	1	1	21	2	2
Home equity lines of credit	6	—	—	8	1	1
Home equity loans serviced by others ⁽³⁾	3	—	—	—	—	—
Home equity lines of credit serviced by others ⁽³⁾	2	—	—	3	1	1
Automobile	30	—	—	3	—	—
Student	—	—	—	—	—	—
Credit cards	5523	—	3	—	—	—

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Other retail	1	—	—	—
Total retail	6125	5	456	6
Total	615\$5	\$5	73\$10	\$10

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CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollars in millions)	Primary Modification Types		Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification		
	Number of Contracts	Other ⁽⁴⁾				
	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment				
Commercial	4	\$20	\$21	\$—	\$—	
Commercial real estate	—	—	—	—	—	
Total commercial	4	20	21	—	—	
Residential mortgages	67	7	7	—	—	
Home equity loans	94	5	5	(1)	—
Home equity lines of credit	92	6	6	—	—	
Home equity loans serviced by others ⁽³⁾	16	—	—	—	—	
Home equity lines of credit serviced by others ⁽³⁾	5	1	—	—	—	
Automobile	348	7	6	—	1	
Student	111	2	2	1	—	
Credit cards	—	—	—	1	—	
Other retail	5	—	—	—	—	
Total retail	738	28	26	1	1	
Total	742	\$48	\$47	\$1	\$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⁾ The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

⁽⁴⁾ Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forbearance, 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.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

(dollars in millions)	Primary Modification Types					
	Interest Rate Reduction ⁽¹⁾		Maturity Extension ⁽²⁾			
	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	7	\$1	\$1	36	\$2	\$2
Commercial real estate	—	—	—	—	—	—
Total commercial	7	1	1	36	2	2
Residential mortgages	20	3	3	9	2	2
Home equity loans	26	1	1	49	11	11
Home equity lines of credit	—	—	—	—	—	—
Home equity loans serviced by others ⁽³⁾	5	—	—	—	—	—
Automobile	18	1	1	1	—	—
Credit cards	63	0	3	—	—	—
Total retail	69	8	8	59	13	13
Total	70	\$9	\$9	95	\$15	\$15

(dollars in millions)	Primary Modification Types					Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification
	Other ⁽⁴⁾						
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment				
Commercial	3	\$—	\$—		\$—	\$—	
Commercial real estate	—	—	—		—	—	
Total commercial	3	—	—		—	—	
Residential mortgages	42	4	4		—	—	
Home equity loans	97	7	7		—	—	
Home equity lines of credit	78	5	5		—	1	
Home equity loans serviced by others ⁽³⁾	25	1	1		—	—	
Home equity lines of credit serviced by others ⁽³⁾	15	1	1		—	—	
Automobile	17	2	2		—	—	
Student	36	7	7		1	—	
Credit cards	—	—	—		1	—	
Other retail	4	—	—		—	—	
Total retail	80	28	27		2	1	
Total	80	\$28	\$27		\$2	\$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⁾ The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

⁽⁴⁾ Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forbearance, 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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

(dollars in millions)	Primary Modification Types					
	Interest Rate Reduction ⁽¹⁾			Maturity Extension ⁽²⁾		
	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	8	\$1	\$1	54	\$8	\$8
Commercial real estate	—	—	—	—	—	—
Total commercial	8	1	1	54	8	8
Residential mortgages	25	4	4	16	3	3
Home equity loans	29	2	2	37	4	4
Home equity lines of credit	13	1	1	27	3	3
Home equity loans serviced by others ⁽³⁾	6	—	—	—	—	—
Home equity lines of credit serviced by others ⁽³⁾	2	—	—	4	1	1
Automobile	51	1	1	8	—	—
Student	—	—	—	—	—	—
Credit cards	1,081	6	6	—	—	—
Other retail	1	—	—	—	—	—
Total retail	1,208	14	14	92	11	11
Total	1,216	\$15	\$15	146	\$19	\$19

(dollars in millions)	Primary Modification Types				
	Other ⁽⁴⁾			Net Change to ALLL Resulting from Modification	Charge-offs Resulting from Modification
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment		
Commercial	9	\$41	\$41	(\$1)	\$—
Commercial real estate	—	—	—	—	—
Total commercial	9	41	41	(1)	—
Residential mortgages	131	15	15	—	—
Home equity loans	181	11	11	(1)	—
Home equity lines of credit	124	8	8	—	—
Home equity loans serviced by others ⁽³⁾	34	1	1	—	—
Home equity lines of credit serviced by others ⁽³⁾	13	1	—	—	—
Automobile	539	10	9	—	1
Student	297	6	6	2	—
Credit cards	—	—	—	1	—
Other retail	8	—	—	—	—
Total retail	1,327	52	50	2	1
Total	1,336	\$93	\$91	\$1	\$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) The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.
- (4) Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forbearance, 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.

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

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

(dollars in millions)	Primary Modification Types					
	Interest Rate Reduction ⁽¹⁾			Maturity Extension ⁽²⁾		
	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	14	\$3	\$3	64	\$12	\$12
Commercial real estate	1	—	—	—	—	—
Total commercial	15	3	3	64	12	12
Residential mortgages	53	9	9	19	4	4
Home equity loans	47	2	2	86	16	16
Home equity lines of credit	—	—	—	3	—	—
Home equity loans serviced by others ⁽³⁾	22	1	1	—	—	—
Home equity lines of credit serviced by others ⁽³⁾	—	—	—	—	—	—
Automobile	38	1	1	2	—	—
Student	—	—	—	—	—	—
Credit cards	1,234	7	7	—	—	—
Other retail	—	—	—	—	—	—
Total retail	1,394	20	20	110	20	20
Total	1,409	\$23	\$23	174	\$32	\$32

(dollars in millions)	Primary Modification Types				
	Other ⁽⁴⁾				Charge-offs Resulting from Modification
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Net Change to ALLL Resulting from Modification	
Commercial	4	\$2	\$2	(\$1)	
Commercial real estate	1	4	4	—	—
Total commercial	5	6	6	(1)	—
Residential mortgages	106	10	10	(1)	—
Home equity loans	294	17	17	—	—
Home equity lines of credit	213	14	12	—	2
Home equity loans serviced by others ⁽³⁾	71	3	3	—	1
Home equity lines of credit serviced by others ⁽³⁾	22	1	1	—	—
Automobile	469	8	6	—	1
Student	750	14	14	3	—
Credit cards	—	—	—	1	—
Other retail	15	—	—	—	—
Total retail	1,940	67	63	3	4
Total	1,945	\$73	\$69	\$2	\$4

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

- (2) Includes modifications that consist of multiple concessions, one of which is a maturity extension (unless one of the other concessions was an interest rate reduction).
- (3) The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.
- (4) Includes modifications other than interest rate reductions or maturity extensions, such as lowering scheduled payments for a specified period of time, principal forbearance, 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.

CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The table below summarizes TDRs that defaulted during the three months ended June 30, 2016 and 2015 within 12 months of their modification date. For purposes of this table, a payment default is defined as being past due 90 days or more 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 June 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.

(dollars in millions)	Three Months Ended June 30,			
	2016		2015	
	Number of Contracts	Balance of Defaulted Contracts	Number of Contracts	Balance of Defaulted Contracts
Commercial	8	\$3	8	\$1
Commercial real estate	1	—	—	—
Total commercial	9	3	8	1
Residential mortgages	35	4	34	5
Home equity loans	32	2	32	2
Home equity lines of credit	20	1	32	1
Home equity loans serviced by others ⁽¹⁾	11	—	7	—
Home equity lines of credit serviced by others ⁽¹⁾	6	—	6	—
Automobile	22	1	19	—
Student	18	1	44	1
Credit cards	85	—	100	1
Other retail	—	—	1	—
Total retail	2299		275	10
Total	2388	\$12	283	\$11

⁽¹⁾ The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

The table below summarizes TDRs that defaulted during the six months ended June 30, 2016 and 2015 within 12 months of their modification date.

(dollars in millions)	Six Months Ended June 30,			
	2016		2015	
	Number of Contracts	Balance of Defaulted Contracts	Number of Contracts	Balance of Defaulted Contracts
Commercial	11	\$3	14	\$1
Commercial real estate	1	—	—	—
Total commercial	12	3	14	1
Residential mortgages	89	12	83	11
Home equity loans	50	3	83	6
Home equity lines of credit	45	4	72	3
Home equity loans serviced by others ⁽¹⁾	21	1	23	1
Home equity lines of credit serviced by others ⁽¹⁾	11	—	7	—
Automobile	37	1	42	1
Student	31	1	109	2
Credit cards	206	1	202	1
Other retail	—	—	3	—
Total retail	490	23	624	25

Total 502\$26 638 \$26

(1) The Company's SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. The Company now services a portion of this portfolio internally.

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CITIZENS FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 June 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.

The following table presents balances of loans with these characteristics:

(in millions)	June 30, 2016					
	Residential Mortgages	Home Equity Loans and Lines of Credit	Home Equity Products Serviced by Others	Credit Cards	Student	Total
High loan-to-value	\$595	\$782	\$621	\$—	\$—	\$1,998
Interest only/negative amortization	1,369	—	—	—	1	1,370
Low introductory rate	—	—	—	94	—	94
Multiple characteristics and other	4	—	—	—	—	4
Total	\$1,968	\$782	\$621	\$94	\$1	\$3,466
(in millions)	December 31, 2015					
	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 as follows:

(in millions)	June 30, December 31,	
	2016	2015
LIHTC investment included in other assets	\$660	\$598
LIHTC unfunded commitments included in other liabilities	365	365
Renewable energy investments included in other assets	117	118

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

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. The LIHTC partnerships are managed by 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 initial investment is amortized in proportion to the actual tax credits and other tax benefits to be received in the current period as compared to the total tax credits and other tax benefits 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 affordable housing partnership gains and losses as an adjustment to non-interest income. The Company reports its commitments to make future investments in other liabilities on the Consolidated Balance Sheets. The Company also receives tax credits, which are reported as a reduction of income tax expense (or increase to income tax benefit) related to these transactions.

For the three months ended June 30, 2016, the Company recognized \$16 million of amortization expense, \$14 million of tax credits and \$7 million of other tax benefits associated with these investments in the provision for income taxes. For the six months ended June 30, 2016, the Company recognized \$31 million of amortization expense, \$29 million of tax credits and \$13 million of other tax benefits associated with these investments in the provision for income taxes. For the three months ended June 30, 2015, the Company recognized \$12 million of amortization expense, \$12 million of tax credits and \$5 million of other tax benefits associated with these investments in the provision for income taxes. For the six months ended June 30, 2015, the Company recognized \$24 million of amortization expense, \$23 million of tax credits and \$9 million of other tax benefits associated with these investments in the provision for income taxes. No LIHTC investment impairment losses were recognized during the three and six months ended June 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 of 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 \$543 million and \$649 million for the three months ended June 30, 2016 and 2015, respectively, and \$1.0 billion and \$1.1 billion for the six months ended June 30, 2016 and 2015, respectively.

The Company recognized gains on sales of residential mortgages held for sale of \$16 million and \$11 million for the three months ended June 30, 2016 and 2015, respectively, and \$30 million and \$32 million for the six months ended June 30, 2016 and 2015, respectively.

Pursuant to the standard representations and warranties obligations discussed above the Company repurchased residential mortgages totaling \$2 million and \$3 million for the three months ended June 30, 2016 and 2015, respectively, and \$4 million and \$7 million for the six months ended June 30, 2016 and 2015, respectively.

Mortgage servicing fees, a component of mortgage banking fees, were \$13 million and \$14 million for the three months ended June 30, 2016 and 2015, respectively, and \$26 million and \$28 million for the six months ended

June 30, 2016 and 2015, respectively.

The Company recorded valuation recoveries of \$1 million and \$6 million for its MSRs for the three months ended June 30, 2016 and 2015, respectively, and valuation charge-offs of \$4 million and recoveries of \$7 million for its MSRs for the six months ended June 30, 2016 and 2015, respectively.

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CITIZENS FINANCIAL GROUP, INC.
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Changes related to MSR were as follows:

(in millions)	As of and for the Three Months Ended June 30, 2016		As of and for the Six Months Ended June 30, 2015	
	2016	2015	2016	2015
MSRs:				
Balance as of beginning of period	\$169	\$180	\$173	\$184
Amount capitalized	5	7	10	13
Amortization	(8)	(10)	(17)	(20)
Carrying amount before valuation allowance	166	177	166	177
Valuation allowance for servicing assets:				
Balance as of beginning of period	14	17	9	18
Valuation charge-offs (recoveries)	(1)	(6)	4	(7)
Balance at end of period	13	11	13	11
Net carrying value of MSRs	\$153	\$166	\$153	\$166

MSRs are presented in other assets on the Consolidated Balance Sheets.

The fair value of MSRs is estimated using a valuation model that calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, contractual servicing fee income, servicing costs, default rates, ancillary income, and other economic factors, which are determined based on current market conditions. The valuation model uses a static discounted cash flow methodology incorporating current market interest rates. A static model does not attempt to forecast or predict the future direction of interest rates; rather it estimates the amount and timing of future servicing cash flows using current market interest rates. The current mortgage interest rate influences the expected prepayment rate and therefore, the length of the cash flows associated with the servicing asset, while the discount rate determines the present value of those cash flows. Expected mortgage loan prepayment assumptions are obtained using the QRM Multi Component prepayment model. The Company periodically obtains third-party valuations of its MSRs to assess the reasonableness of the fair value calculated by the valuation model.

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

(dollars in millions)	June 30, 2016	December 31, 2015
Fair value	\$165	\$178
Weighted average life (in years)	4.9	5.4
Weighted average constant prepayment rate	13.5%	11.6%
Weighted average discount rate	9.7%	9.7%

The key economic assumptions used in estimating the fair value of MSRs capitalized during the period were as follows:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	2016	2015	2016	2015
Weighted average life (in years)	5.9	6.3	6.0	5.4
Weighted average constant prepayment rate	11.3%	9.8%	11.1%	11.1%
Weighted average discount rate	9.7%	9.7%	9.7%	9.6%

CITIZENS FINANCIAL GROUP, INC.

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The sensitivity analysis below as of June 30, 2016 and December 31, 2015 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. The effect of a variation in a particular assumption on the fair value of the mortgage servicing rights is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (e.g., changes in interest rates, which drive changes in prepayment speeds, could result in changes in the discount rates), which might amplify or counteract the sensitivities. The primary risk inherent in the Company's MSR is an increase in prepayments of the underlying mortgage loans serviced, which is dependent upon market movements of interest rates.

(in millions)	June 30, 2016	December 31, 2015
Prepayment rate:		
Decline in fair value from a 50 basis point decrease in interest rates	\$6	\$5
Decline in fair value from a 100 basis point decrease in interest rates	\$17	\$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

The following is a summary of the Company's short-term borrowed funds:

(in millions)	June 30, 2016	December 31, 2015
Securities sold under agreements to repurchase	\$717	\$802
Other short-term borrowed funds (primarily current portion of FHLB advances)	2,770	2,630
Total short-term borrowed funds	\$3,487	\$3,432

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

(dollars in millions)	As of and for the Six Months Ended June 30, 2016	As of and for the Year Ended December 31, 2015
Weighted-average interest rate at period-end:		
Federal funds purchased and securities sold under agreements to repurchase	0.00 %	0.15 %
Other short-term borrowed funds (primarily current portion of FHLB advances)	0.65	0.44
Maximum amount outstanding at month-end during the period:		
Federal funds purchased and securities sold under agreements to repurchase	\$1,274	\$5,375
Other short-term borrowed funds (primarily current portion of FHLB advances)	4,764	7,004
Average amount outstanding during the period:		
Federal funds purchased and securities sold under agreements to repurchase	\$927	\$3,364
Other short-term borrowed funds (primarily current portion of FHLB advances)	3,421	5,865
Weighted-average interest rate during the period:		

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Federal funds purchased and securities sold under agreements to repurchase	0.07	%	0.22	%
Other short-term borrowed funds (primarily current portion of FHLB advances)	0.60		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.

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

The following is a summary of the Company's long-term borrowed funds:

(in millions)	June 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 ⁽²⁾	333	333
3.750% fixed rate subordinated debt, due 2024 ^{(2) (3)}	250	250
4.023% fixed rate subordinated debt, due 2024 ^{(2) (4)}	218	331
4.082% fixed rate subordinated debt, due 2025 ^{(2) (5)}	355	331
4.350% fixed rate subordinated debt, due 2025 ⁽⁶⁾	249	250
4.300% fixed rate subordinated debt, due 2025 ⁽⁷⁾	749	750
Banking Subsidiaries:		
1.600% senior unsecured notes, due 2017 ^{(8) (9)}	753	749
2.300% senior unsecured notes, due 2018 ^{(8) (10)}	756	747
2.450% senior unsecured notes, due 2019 ^{(8) (11)}	767	752
2.500% senior unsecured notes, due 2019 ^{(8) (12)}	753	—
2.550% senior unsecured notes, due 2021 ^{(8) (13)}	1,004	—
Federal Home Loan advances due through 2033	5,264	5,018
Other	12	25
Total long-term borrowed funds	\$11,810	\$9,886

⁽¹⁾ These balances are comprised of: principal balances of \$350 million at June 30, 2016 and December 31, 2015, as well as the impact of (\$3) million of unamortized deferred issuance costs and discount at June 30, 2016.

⁽²⁾ Borrowed funds with RBS as of December 31, 2015. See Note 13 "Related Party Transactions and Significant Transactions with RBS" for further information.

⁽³⁾ Prior to January 1, 2016, interest was payable at a fixed rate per annum of 4.153%.

⁽⁴⁾ These balances are comprised of: principal balance of \$208 million and \$333 million at June 30, 2016 and December 31, 2015, respectively, as well as the impact from interest rate swaps of \$10 million and (\$2) million at June 30, 2016 and December 31, 2015, respectively. See Note 11 "Derivatives" for further information. In addition, on March 7, 2016, the Company repurchased \$125 million of these securities from RBS. See Note 13 "Related Party Transactions and Significant Transactions with RBS" for further information.

⁽⁵⁾ These balances are comprised of: principal balance of \$334 million at June 30, 2016 and December 31, 2015; impact from interest rate swaps of \$21 million and (\$3) million at June 30, 2016 and December 31, 2015, respectively. See Note 11 "Derivatives" for further information.

⁽⁶⁾ These balances are comprised of: principal balances of \$250 million at June 30, 2016 and December 31, 2015, as well as the impact of (\$1) million of unamortized deferred issuance costs and discount at June 30, 2016.

⁽⁷⁾ These balances are comprised of: principal balances of \$750 million at June 30, 2016 and December 31, 2015, as well as the impact of (\$1) million of unamortized deferred issuance costs and discount at June 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 June 30, 2016 and December 31, 2015; impact from interest rate swaps of \$4 million and (\$1) million at June 30, 2016 and December 31, 2015, respectively; and (\$1) million of unamortized deferred issuance costs and discount at June 30, 2016. See Note 11 "Derivatives" for further information.

⁽¹⁰⁾ These balances are comprised of: principal balances of \$750 million at June 30, 2016 and December 31, 2015; impact from interest rate swaps of \$8 million and (\$3) million at June 30, 2016 and December 31, 2015, respectively; and (\$2) million of unamortized deferred issuance costs and discount at June 30, 2016. See Note 11 "Derivatives" for further information.

(11) These balances are comprised of: principal balances of \$750 million at June 30, 2016 and December 31, 2015; impact from interest rate swaps of \$20 million and \$2 million at June 30, 2016 and December 31, 2015, respectively; and (\$3) million of unamortized deferred issuance costs and discount at June 30, 2016. See Note 11 “Derivatives” for further information.

(12) The balance is comprised of: principal balance of \$750 million at June 30, 2016; impact from interest rate swaps of \$5 million and (\$2) million of unamortized deferred issuance costs and discount at June 30, 2016. See Note 11 “Derivatives” for further information.

(13) The balance is comprised of: principal balance of \$1.0 billion at June 30, 2016; impact from interest rate swaps of \$9 million and (\$5) million of unamortized deferred issuance costs and discount at June 30, 2016. See Note 11 “Derivatives” for further information.

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 \$12.0 billion and \$11.3 billion at June 30, 2016 and December 31, 2015, respectively. The Company’s available FHLB borrowing capacity was \$3.5 billion and \$4.1 billion at June 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 June 30, 2016, the Company’s unused secured borrowing capacity was approximately \$32.2 billion, which includes unencumbered securities, FHLB borrowing capacity, and FRB discount window capacity.

CITIZENS FINANCIAL GROUP, INC.
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The following is a summary of maturities for the Company's long-term borrowed funds at June 30, 2016:

Year (in millions)	CFG	Banking	Consolidated
	Parent Company	Subsidiaries	
2017 or on demand	\$—	\$6,004	\$6,004
2018	—	761	761
2019	—	1,521	1,521
2020	—	2	2
2021	—	1,009	1,009
2022 and thereafter	2,501	12	2,513
Total	\$2,501	\$9,309	\$11,810

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 June 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 Series A Preferred Stock have been declared for that period 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

On August 3, 2015, CFG 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 directly from RBS 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 from RBS 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.

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CITIZENS FINANCIAL GROUP, INC.

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No treasury stock activity was recorded during the six months ended June 30, 2016. 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.

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. 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:

	Six Months Ended June 30,					
	Qualified Plan		Non-Qualified Plan		Total	
(in millions)	2016	2015	2016	2015	2016	2015
Service cost	\$2	\$2	\$—	\$—	\$2	\$2
Interest cost	22	22	2	2	24	24
Expected return on plan assets	(34)	(37)	—	—	(34)	(37)
Amortization of actuarial loss	7	6	1	1	8	7
Net periodic pension (income) cost	(\$3)	(\$7)	\$3	\$3	\$—	(\$4)

NOTE 10 - INCOME TAXES**Income Tax Provision**

The provision for income taxes was \$118 million and \$92 million for the three months ended June 30, 2016 and 2015, respectively, resulting in effective tax rates of 32.6% and 32.7%, respectively. The provision for income taxes was \$227 million and \$198 million for the six months ended June 30, 2016 and 2015, respectively, resulting in effective tax rates of 32.7% and 33.2%, respectively. For the six months ended June 30, 2016 and 2015, the effective tax rate compared favorably to the statutory rate of 35% primarily as a result of the permanent benefits of tax credits and tax-exempt income.

Deferred Tax Liability

At June 30, 2016, the Company reported a net deferred tax liability of \$961 million, compared to a \$730 million liability 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.”

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

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

(in millions)	June 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	\$15,500	\$425	\$255	\$16,750	\$96	\$50
Derivatives not designated as hedging instruments:						
Interest rate contracts	39,606	810	723	33,719	540	455
Foreign exchange contracts	9,490	193	185	8,366	163	156
Other contracts	1,491	15	14	981	8	5
Total derivatives not designated as hedging instruments		1,018	922		711	616
Gross derivative fair values		1,443	1,177		807	666
Less: Gross amounts offset in the Consolidated Balance Sheets (2)		(130)	(130)		(178)	(178)
Less: Cash collateral applied (2)		(1)	(37)		(4)	(3)
Total net derivative fair values presented in the Consolidated Balance Sheets (3)		\$1,312	\$1,010		\$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 was 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 has also entered into a forward-starting interest rate swap to minimize the exposure to variability in the interest cash flows on a forecasted fixed rate debt issuance.

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 currency. 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 hedging portfolio qualifies for hedge accounting. 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 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 changes in fair value of the fair value hedges, to the extent that the hedging relationship is effective, are recorded through earnings and offset against changes in the fair value of the hedged item.

The following tables summarize certain information related to the Company's fair value hedges:

(in millions)	The Effect of Fair Value Hedges on Net Income Amounts Recognized in Other Income for the				
	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015		
	Derivative Item	Hedged Item	Hedge Ineffectiveness	Derivative Item	Hedge Ineffectiveness
Hedges of interest rate risk on borrowings using interest rate swaps	\$32	(\$31)	\$1	(\$3)	\$3 \$—

(in millions)	The Effect of Fair Value Hedges on Net Income Amounts Recognized in Other Income for the				
	Six Months Ended June 30, 2016		Six Months Ended June 30, 2015		
	Derivative Item	Hedged Item	Hedge Ineffectiveness	Derivative Item	Hedge Ineffectiveness
Hedges of interest rate risk on borrowings using interest rate swaps	\$84	(\$83)	\$1	\$6 (\$6)	\$—

Cash flow hedges

The Company has outstanding interest rate swap agreements designed to hedge a portion of the Company's floating rate assets, financing liabilities (including its borrowed funds), and a forecasted debt issuance. 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 summarizes certain information related to the Company's cash flow hedges:
The Effect of Cash Flow Hedges on Net Income and Stockholders' Equity

	Amounts Recognized for			
	the		the	
	Three		Six Months	
	Months		Ended June	
	Ended June		30,	
	30,		2016	2015
(in millions)	2016	2015	2016	2015
Effective portion of gain (loss) recognized in OCI ⁽¹⁾	\$21	(\$8)	\$75	\$96
Amounts reclassified from OCI to interest income ⁽²⁾	21	17	43	35
Amounts reclassified from OCI to interest expense ⁽²⁾	(8)	(14)	(16)	(29)

⁽¹⁾ The cumulative effective gains and losses on the Company's cash flow hedging activities are included on the accumulated other comprehensive loss line item on the Consolidated Balance Sheets.

⁽²⁾ This amount includes both (a) the amortization of effective gains and losses associated with the Company's terminated cash flow hedges and (b) the current reporting period's interest settlements realized on the Company's active cash flow hedges. Both (a) and (b) were previously included on the accumulated other comprehensive loss line item on the Consolidated Balance Sheets and were subsequently recorded as adjustments to the interest expense of the underlying hedged item.

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 summarizes certain information related to the Company's customer derivatives and economic hedges:

The Effect of Customer Derivatives and Economic Hedges on Net Income

	Amounts Recognized			
	in Noninterest Income			
	for the		for the	
	Three	Six	Three	Six
	Months	Months	Months	Months
	Ended	Ended	Ended	Ended
	June 30,	June 30,	June 30,	June 30,
(in millions)	2016	2015	2016	2015
Customer derivative contracts				
Customer interest rate contracts ⁽¹⁾	(\$2)	(\$9)	\$95	\$64
Customer foreign exchange contracts ⁽¹⁾	(23)	18	28	(17)
Residential loan commitments ⁽²⁾	3	(7)	7	(7)

Economic hedges

Offsetting derivatives transactions to hedge interest rate risk on customer interest rate contracts (1)	15	17	(76)	(51)
Offsetting derivatives transactions to hedge foreign exchange risk on customer foreign exchange contracts (3)	23	(19)	(27)	16
Forward sale contracts (2)	(5)	3	(10)	2
Total	\$11	\$3	\$17	\$7

(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

The following is a summary of outstanding off-balance sheet arrangements:

(in millions)	June 30, 2016	December 31, 2015
Commitment amount:		
Undrawn commitments to extend credit	\$58,622	\$56,524
Financial standby letters of credit	1,946	2,010
Performance letters of credit	37	42
Commercial letters of credit	70	87
Marketing rights	46	47
Risk participation agreements	64	26
Residential mortgage loans sold with recourse	9	10
Total	\$60,794	\$58,746

Commitments to Extend Credit

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

Letters of Credit

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

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

The Company recognizes a liability on the Consolidated Balance Sheets representing its obligation to stand ready to perform over the term of the standby letters of credit in the event that the specified triggering events occur. The liability for these guarantees was \$3 million at June 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 \$1 million for the six months ended June 30, 2016 and \$3 million for the year ended December 31, 2015, and is obligated to pay \$46 million over the remainder of the contract.

Risk Participation Agreements

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

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

concurrently with the sale of new customer derivatives. RPAs where the Company acts as the participating bank are referred to as “participations-in,” in reference to the credit risk associated with the counterparty’s derivatives being assumed by the Company. The Company’s maximum credit exposure is based on its proportionate share of the settlement amount of the referenced interest rate swap. Settlement amounts are generally calculated based on the fair value of the swap plus outstanding accrued interest receivables from the customer. The Company’s estimate of the credit exposure associated with its risk participations-in as of June 30, 2016 and December 31,

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2015 is \$64 million and \$26 million, respectively. The current amount of credit exposure is spread out over 89 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 balance of unsettled commercial loan trade purchases and sales were \$111 million and \$108 million, respectively, at June 30, 2016. 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.

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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 AND SIGNIFICANT TRANSACTIONS WITH RBS

On November 3, 2015, RBS completed the sale of all of its remaining shares of CFG's common stock. The parenthetical disclosures related to long-term borrowed funds on the Consolidated Balance Sheets, Consolidated Statements of Operations, and Consolidated Statements of Cash Flows as well as the tables and discussions below include significant related party transactions with RBS prior to the Company's separation from RBS and significant transactions subsequent to the separation.

In September 2014, the Company entered into certain agreements that established a framework for its ongoing relationship with RBS. Specifically, the Company entered into the following agreements with RBS: Separation and Shareholder Agreement, Registration Rights Agreement, Trade Mark License Agreement, Amended and Restated Master Services Agreement, and Transitional Services Agreements. In connection with RBS's exit of its ownership in our common stock in 2015, the Separation and Shareholder Agreement and the Registration Rights Agreement were terminated and the Trademark License Agreement was partially terminated.

The following is a summary of borrowed funds originally issued to RBS:

(dollars in millions)	Interest Rate	Maturity Date	June 30, December 31,	
			2016	2015
Subordinated debt	5.158%	June 2023	\$333	\$333
	3.750% ⁽¹⁾	July 2024	250	250
	4.023% ^{(2) (3)}			