CITIZENS FINANCIAL GROUP INC/RI
Form 10-K
February 26, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended
December 31, 2015
[ ] 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 (State or Other Jurisdiction of Incorporation or Organization)	05-0412693 (I.R.S. Employer Identification Number)

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [X] Yes [ ] No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] Yes [X] No
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
[X] Yes [ ] No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [X] Yes [ ] No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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

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

The aggregate market value of voting stock held by nonaffiliates of the Registrant was $8,672,625,866 (based on the June 30, 2015 closing price of
Citizens Financial Group, Inc. common shares of $27.31 as reported on the New York Stock Exchange). There were 527,811,625 shares of Registrant's common stock ($0.01 par value) outstanding on February 1, 2016.
Documents incorporated by reference
Portions of Citizens Financial Group, Inc.'s proxy statement to be filed with the United States Securities and Exchange Commission in connection with Citizens Financial Group, Inc.'s 2016 annual meeting of stockholders (the "Proxy Statement") are incorporated by reference into Part III hereof. Such Proxy Statement will be filed within 120 days of Citizens Financial Group, Inc.'s fiscal year ended December 31, 2015.

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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
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
CLO	Collateralized Loan Obligation
CMO	Collateralized Mortgage Obligation
CRA	Community Reinvestment Act
CRE	Commercial Real Estate
CRO	Chief Risk Officer
CSA	Credit Support Annex
DFAST	Dodd-Frank Act Stress Test
DIF	Deposit Insurance Fund
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DTA	Deferred Tax Assets
EPS	Earnings Per Share
ESPP	Employee Stock Purchase Program
ERISA	Employee Retirement Income Security Act of 1974
Fannie Mae (FNMA)	Federal National Mortgage Association
FASB	Financial Accounting Standards Board
FDIA	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation (credit rating)
FINRA	Financial Industry Regulation Authority
FRB	Federal Reserve Bank
FRBG	Federal Reserve Board of Governors
Freddie Mac (FHLMC)	Federal Home Loan Mortgage Corporation
FTE	Full Time Equivalent

FTP	Funds Transfer Pricing
GAAP	Accounting Principles Generally Accepted in the United States of America
GDP	Gross Domestic Product
GLBA	Gramm-Leach-Bliley Act of 1999
Ginnie Mae (GNMA)	Government National Mortgage Association
HELOC	Home Equity Line of Credit
HLS	Home Lending Solutions
HTM	Held To Maturity
IPO	Initial Public Offering
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LIHTC	Low Income Housing Tax Credit
LTV	Loan-to-Value
MBS	Mortgage-Backed Securities
MSA	Metropolitan Statistical Area
MSR	Mortgage Servicing Right
NSFR	Net Stable Funding Ratio
NYSE	New York Stock Exchange
OCC	Office of the Comptroller of the Currency
OCI	Other Comprehensive Income
OFAC	Office of Foreign Assets Control
OIS	Overnight Index Swap
OTC	Over the Counter
PD	Probability of Default
peers or peer banks or peer regional banks	BB&T, Comerica, Fifth Third, KeyCorp, M&T, PNC, Regions, SunTrust and U.S. Bancorp
RBS	The Royal Bank of Scotland Group plc or any of its subsidiaries
REITs	Real Estate Investment Trusts
ROTCE	Return on Average Tangible Common Equity
RPA	Risk Participation Agreement
RWA	Risk-weighted Assets
SBO	Serviced by Others loan portfolio
SCA	Strategic Client Acquisition
SEC	United States Securities and Exchange Commission
SVaR	Stressed Value-at-Risk
TDR	Troubled Debt Restructuring
VaR	Value-at-Risk

FORWARD-LOOKING STATEMENTS

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

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

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

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

More information about factors that could cause actual results to differ materially from those described in the forward-looking statements can be found under “Risk Factors” in Part I, Item 1A, included elsewhere in this report.

PART I
ITEM 1. BUSINESS
Headquartered in Providence, Rhode Island, with $138.2 billion of total assets as of December 31, 2015, we were the 13th largest retail bank holding company in the United States.(1) Our approximately 17,700 colleagues strive to meet the financial needs of customers and prospects through approximately 1,200 branches operating in an 11-state footprint across the New England, Mid-Atlantic and Midwest regions and through our online, telephone and mobile banking platforms. Our branch banking footprint contained approximately 30 million households and 3.1 million businesses as of December 31, 2015.(1) We also maintain over 100 retail and commercial non-branch offices located both in our banking footprint and in other states and the District of Columbia largely contiguous to our footprint. We deliver a comprehensive range of retail and commercial banking products and services to more than five million individuals, institutions and companies and as of December 31, 2015 nearly 70% of our loans were to customers in our footprint and eight contiguous states where we maintain offices.
Our primary subsidiaries are CBNA, a national banking association whose primary federal regulator is the OCC, and CBPA, a Pennsylvania-chartered savings bank regulated by the Department of Banking of the Commonwealth of Pennsylvania and supervised by the FDIC as its primary federal regulator.
Our History
In September 2014, Citizens Financial Group (CFG: NYSE) became a publicly-traded company in the largest traditional bank IPO in U.S. history. Following three subsequent follow on equity offerings in March, July, and November of 2015, Citizens is now fully separated from RBS.
Our history dates back to High Street Bank, founded in 1828, which established Citizens Savings Bank in 1871. Citizens Savings Bank acquired a controlling interest in its founder by the 1940s, renaming the entity Citizens Trust Company. By 1981, we had grown to 29 branches in Rhode Island with approximately $1.0 billion of assets, and in 1988 we became a wholly-owned subsidiary of RBS. Over the following two decades, we grew substantially through a series of over 25 strategic bank acquisitions, which greatly expanded our footprint throughout New England and into the Mid-Atlantic and the Midwest, transforming us from a local retail bank into one of the largest retail U.S. bank holding companies.
Business Segments
We offer a broad set of banking products and services through our two operating segments — Consumer Banking and Commercial Banking — with a focus on providing local delivery and a differentiated customer experience. We seek to ensure that customers select us as their primary banking partner by taking the time to understand their banking needs and we tailor our full range of products and services accordingly.
The following table presents certain financial information for our segments:

	For the Year Ended December 31,							
	2015				2014			
(in millions)	Consumer Banking	Commercial Banking	Other (2)	Consolidated	Consumer Banking	Commercial Banking	Other (2)	Consolidated
Total average loans and leases and loans held for sale	$51,484	$41,593	$3,469	$96,546	$47,745	$37,683	$4,316	$89,744
Total average deposits and deposits held for sale	69,748	23,473	5,933	99,154	68,214	19,838	4,512	92,564
Net interest income	2,198	1,162	42	3,402	2,151	1,073	77	3,301
	910	415	97	1,422	899	429	350	1,678

Noninterest income								
Total revenue	3,108	1,577	139	4,824	3,050	1,502	427	4,979
Noninterest expense	2,456	709	94	3,259	2,513	652	227	3,392
Net income (loss)	$262	$579	($1)	$840	$182	$561	$122	$865

(1) According to SNL Financial.

(2) Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets and liabilities, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, revenues, provision for credit losses and expenses not attributed to the Consumer Banking or Commercial Banking segments. For a description of non-core assets, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Analysis of Financial Condition — December 31, 2015 Compared with December 31, 2014 — Loans and Leases — Non-Core Assets" in Part II, Item 7, included elsewhere in this report.

Consumer Banking Segment

Consumer Banking serves retail customers and small businesses with annual revenues of up to $25 million through a network that as of December 31, 2015 included approximately 1,200 branches operating in an 11-state footprint across the New England, Mid-Atlantic and Midwest regions, as well as through online, telephone and mobile banking platforms. Consumer Banking products and services include deposit products, mortgage and home equity lending, student loans, auto financing, credit cards, business loans, wealth management and investment services.

Consumer Banking is focused on winning, expanding and retaining customers through its value proposition: “Simple. Clear. Personal.” and is committed to delivering a differentiated experience through convenience and service. We were named one of the “Most Reputable Banks” in the country, according to the American Banker/Reputation Institute Survey of Bank Reputations released in 2015, which focused on factors including products, corporate citizenship, financial performance and company leadership.

Consumer Banking accounted for $51.5 billion, or 55%, of average loans and leases (including loans held for sale) in our operating segments as of December 31, 2015 and is organized around the customer products and services as follows:

Distribution: Provides a multi-channel distribution system a workforce of approximately 7,000 branch colleagues with a network of approximately 1,200 branches, including over 340 in-store locations, as well as approximately 3,200 ATMs. Our network includes approximately 1,300 specialists covering savings and investments, lending needs and business banking. Our online and mobile capabilities offer customers the convenience of paying bills, transferring money between accounts and from person to person, in addition to a host of other everyday transactions through a robust digital platform.

Everyday Banking: Provides customers with deposit and payment products and services, including checking, savings, money market, certificates of deposit, debit cards, credit cards and overdraft protection. The business included approximately 2.2 million checking households and $53.8 billion in average deposits as of December 31, 2015.

Residential Mortgage: Our mortgage business is primarily in footprint and in select out-of-footprint states through a direct-to-consumer call center and a mortgage loan officer base of over 440 as of December 31, 2015. In October of 2015, we brought together the end-to-end mortgage business to maximize talent, strengthen our service quality front-to-back, and simplify how the business operates. Full year 2015 mortgage originations totaled $5.7 billion with a weighted average FICO score of 763 and loan-to-value of 73%.

Consumer Lending: Provides home equity, personal unsecured lines and loans, student lending, and auto finance products. Aligning these lending products enabled sales and operations synergies, sharing of best practices, and better prioritization of resources to maximize growth opportunities.

Home Equity: Offers home equity loans and home equity lines of credit. We originated $4.0 billion of HELOCs in 2015 and were ranked sixth nationally by outstanding balances as of September 30, 2015[1] and ranked in the top 5 in 8 of our top 9 markets for HELOC originations.[2]

[1] According to SNL Financial.
[2] According to Equifax as of September 30, 2015.

Student Lending: We launched the Student Lending business in 2009 and have expanded to partner with nearly 2,400 high-quality not-for-profit higher education schools in all 50 states. InSchool loan origination volume has increased from $112 million in 2010 to $387 million in 2015 with a weighted-average FICO score of 771. We launched the Education Refinance Loan ("ERL") product in January 2014, which provides those who have entered the workforce a way to refinance or consolidate multiple existing private and federal student loans. We originated approximately $230 million ERL loans in 2014 and approximately $1.1 billion in 2015 with a weighted average FICO score of 781.

Indirect Auto Finance: Provides new and used vehicle financing to prime borrowers through a network of over 6,800 automotive dealerships in 43 states as of December 31, 2015. We implemented a new origination platform in October 2013 that has facilitated more granular credit and pricing strategies which will enable us to optimize risk-adjusted returns. The business ranked seventh nationally among regulated depository institutions by outstanding balances as of September 30, 2015[(1)] with 2015 origination volume of $7.0 billion with a weighted average FICO score of approximately 744.

Business Banking: Serves businesses with annual revenues of up to $25 million through a combination of branch-based employees, business banking officers and relationship managers. As of December 31, 2015, we employed a team of over 360 bankers with loans outstanding of $3.0 billion and average deposit balances of $13.3 billion.

Wealth Management: Provides a full range of advisory services to clients with an array of banking, investment and insurance products and services through a sales force which includes more than 315 financial consultants, over 160 premier bankers and 13 private banker teams. As of December 31, 2015, wealth management had approximately $6.5 billion in assets under management (including $2.4 billion of separately managed accounts) and $12.9 billion in investment brokerage assets.

Commercial Banking Segment

Commercial Banking primarily targets companies and institutions with annual revenues of $25 million to $2.5 billion and strives to be the lead bank for its clients. Commercial Banking offers a broad complement of financial products and solutions, including lending and leasing, deposit and treasury management, foreign exchange and interest rate risk management, corporate finance and debt and equity capital markets capabilities. Commercial Banking provides "Thought Leadership" by leveraging an in-depth understanding of our clients' and prospects' businesses to proactively deliver compelling financial solutions with quality execution. Commercial Banking focuses each business unit in sectors that maximize its ability to be relevant and deliver value added solutions to our clients. In middle-market, this involves a business unit highly focused on our 11-state footprint. In vertical market-oriented businesses, our focus is national within our areas of expertise.

We believe our Commercial Banking segment provides a compelling value proposition based on "Thought Leadership" for clients. Results are evidenced by a fifth place ranking for client penetration and a fourth place ranking for number of lead relationships in middle-market banking within the footprint.[(2)]

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

(1) According to SNL Financial.

(2) According to Greenwich Associates syndicated market research.

Commercial Banking accounted for $41.6 billion, or approximately 45%, of average loans and leases (including loans held for sale) in our operating segments as of December 31, 2015, and is organized as follows:

Corporate Banking: Targets domestic commercial and industrial clients, serving middle-market companies with annual gross revenues of $25 million to $500 million and mid-corporate companies with annual revenues of $500 million to $2.5 billion. The business offers a broad range of products, including lines of credit, term loans, commercial mortgages, domestic and global treasury management solutions, trade services, interest rate products and foreign exchange. Loans are extended on both a secured and unsecured basis, and are substantially all at floating rates of interest. Corporate Banking is a general lending practice, however there are specialty industry verticals addressing U.S. subsidiaries of foreign corporations, technology, government entities, healthcare, oil and gas, not-for-profit and educational institutions, professional firms, franchise finance, and business capital (asset-based lending).
Asset Finance: Offers equipment financing term loans and leases for middle-market and mid-corporate companies, as well as Fortune 500 companies. All transactions are secured by the assets financed and commitments tend to be fully drawn and most leases and loans are fixed rate. Areas of industry specialization include energy, utilities, and chemicals. The business also has expertise in financing corporate aircraft and tax- and non-tax-oriented leases for other long-lived assets such as rail cars.
Commercial Real Estate: Provides customized debt capital solutions for middle-market operators, institutional developers and investors as well as REITs. CRE provides financing for projects in the office, multi-family, industrial, retail, healthcare and hospitality sectors. Loan types include term debt, lines of credit, as well as construction financing. Most loans are secured by commercial real estate properties and are typically non-owner occupied. Owner-occupied commercial real estate is typically originated through our Corporate Banking business.
Capital & Global Markets: Delivers to clients through key product groups including Capital Markets, Corporate Finance, and Global Markets

- Capital Markets originates, structures and underwrites multi-bank credit facilities targeting middle-market, mid-corporate and private equity sponsors with a focus on offering value-added ideas to optimize their capital structure. From 2010 through 2015, Capital Markets was involved in closing 607 lead or co-lead transactions.
- Corporate Finance provides advisory services to middle-market and mid-corporate companies, including mergers and acquisitions, equity private placements and capital structure advisory. The team works closely with industry sector specialists within debt capital markets on proprietary transaction development which serves to originate deal flow in multiple bank products.
- Global Markets is a customer-facing business providing foreign exchange and interest rate risk management services. The lines of business include the centralized leveraged finance team, which provides underwriting and portfolio management expertise for all leveraged transactions and relationships; the private equity team, which serves the unique and time-sensitive needs of private equity firms, management companies and funds; and the sponsor finance team, which provides acquisition and follow-on financing for new and recapitalized portfolio companies of key sponsors.

Treasury Solutions: Supports all lines of business in Commercial Banking and Business Banking with treasury management solutions, including domestic and international cash management, commercial credit cards and trade finance. Treasury Solutions provides products to solve client needs related to receivables, payables, information reporting and liquidity management. Treasury Solutions serves small business banking clients (up to $500,000 annual revenue) up to large mid-corporate clients (over $2.5 billion annual revenue).

Our Competitive Strengths

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

- Significant Scale with Strong Market Penetration in Attractive Geographic Markets: We believe our market share and scale in our footprint is central to our success and growth. With approximately 1,200 branches, approximately 3,200 ATMs, approximately 17,700 colleagues, and over 100 non-branch offices as well as our online, telephone and mobile banking platforms, we serve more than five million individuals, institutions and companies. As of June 30, 2015, we ranked second by deposit market share in the New England region (Maine, New Hampshire, Vermont, Massachusetts, Rhode Island and Connecticut), and we ranked in the top five in nine of our key MSAs, including Boston, Providence, Philadelphia, Pittsburgh and Cleveland.[1] We believe this strong market share in our core regions, which have relatively diverse economies and affluent demographics, will help us achieve our long-term growth objectives.

The following table sets forth information regarding our competitive position in our principal MSAs:
(dollars in millions)

MSA	Total Branches	Deposits	Market Rank	Market Share
Boston, MA	204	$29,167	2	15.5%
Philadelphia, PA	186	16,642	5	5.2
Providence, RI	100	11,065	1	29.8
Pittsburgh, PA	127	9,375	2	9.6
Cleveland, OH	57	5,698	3	8.9
Detroit, MI	90	4,768	8	4.1
Manchester, NH	21	4,639	1	38.3
Albany, NY	25	2,660	2	12.7
Buffalo, NY	41	1,706	4	4.3
Rochester, NY	34	1,578	5	9.5

Source: FDIC, June 2015. Excludes “non-retail banks” as defined by SNL Financial. The scope of “non-retail banks” is subject to the discretion of SNL Financial, but typically includes: industrial bank and non-depository trust charters, institutions with over 20% brokered deposits (of total deposits), institutions with over 20% credit card loans (of total loans), institutions deemed not to broadly participate in the banking services market, and other nonretail competitor banks.

- Strong Customer Relationships: We focus on building strong customer relationships by delivering a consistent, high-quality level of service supported by a wide range of products and services. We believe that we provide a distinctive customer experience characterized by offering the personal touch of a local bank with the product selection of a larger financial institution. Our Consumer Banking cross-sell efforts have improved to 5.1 products and services per retail household as of December 31, 2015 compared to 4.4 products and services as of December 31, 2010. Additionally, the overall customer satisfaction index continued to improve in the New England region (up 1% from 2014 to 2015).[2] In addition, we maintained our top 10 ranking in the overall national middle market bookrunner league table (by number of syndicated loans) for the full year 2015[3] and received a number 1 rank in our Net Promoter Score compared to the top four competitors in our footprint based on rolling four-quarter data through September 30, 2015.[1] Net Promoter Score is a customer loyalty metric, which is calculated by subtracting the percentage of customers who on a scale of 1-10 are detractors (rating 0-6) from the percentage of customers who are promoters (rating 9-10).

(1) According to Greenwich Associates syndicated market research.
(2) As measured by J.D. Power and Associates.
(3) According to Thomson Reuters.

- Experienced Management Team Supported by a High-Performing and Talented Workforce: Our leadership team of seasoned industry professionals is supported by a highly motivated, diverse set of managers and employees committed to delivering a strong customer value proposition. Our highly experienced and talented executive management team, whose members have more than 20 years of banking experience on average, provides strong leadership to deliver on our overall business objectives. Bruce Van Saun, our Chairman and CEO, has more than 30 years of financial services experience including four years as RBS Finance Director. Earlier in his career, Mr. Van Saun held a number of senior positions at The Bank of New York Mellon, Deutsche Bank, Wasserstein Perella Group and Kidder Peabody & Co. We continued to attract top talent throughout 2015. Don McCree recently joined the bank as our Vice Chairman and Head of Commercial Banking, and Eric Aboaf became our Chief Financial Officer. Mr. McCree previously served in a number of senior leadership positions over the course of 31 years at JPMorgan Chase & Co., and Mr. Aboaf most recently held the role of global Treasurer at Citigroup Inc. In addition, we have also hired new leadership in our mortgage and wealth businesses to drive growth in those key areas.
- Stable, Low-Cost Core Deposit Base: We have a strong funding profile, with $102.5 billion of total deposits as of December 31, 2015, consisting of 27% in noninterest-bearing deposits and 73% in interest-bearing deposits. Noninterest-bearing deposits provide a lower-cost funding base, and we grew this base to $27.6 billion at December 31, 2015, up 40% from $19.7 billion at December 31, 2010. For the year ended December 31, 2015, our total average cost of deposits was 0.24%, up from 0.17% for the year ended December 31, 2014, 0.23% for the year ended December 31, 2013, 0.40% for the year ended December 31, 2012 and 0.54% for the year ended December 31, 2011.
- Superior Capital Position: We are among the most well capitalized large regional banks in the United States, with a CET1 ratio of 11.7% as of December 31, 2015 compared to a peer average of 10.4%[(1)] as of December 31, 2015. Our strong capital position provides us the financial flexibility to continue to invest in our businesses and execute our strategic growth initiatives. Through recent capital optimization efforts, we have sought to better align our capital base with that of our peers banks by reducing our common equity Tier 1 capital and increasing other Tier 1 and Tier 2 capital levels. We continued our capital optimization strategy in 2015 by repurchasing $500 million of common stock funded by the issuance of $250 million of preferred stock and $250 million of subordinated debt.
- Solid Asset Quality Throughout a Range of Credit Cycles: Our experienced credit risk professionals and prudent credit culture, combined with centralized processes and consistent underwriting standards across all business lines, have allowed us to maintain strong asset quality through a variety of business cycles. As a result, we weathered the global financial crisis better than our peers: for the two-year period ending December 31, 2009, net charge-offs averaged 1.63% of average loans compared to a peer average of 1.76%.[(1)] More recently, the credit quality of our loan portfolio has continued to improve with nonperforming assets as a percentage of total assets of 0.80% at December 31, 2015 compared to 0.86% and 1.20% as of December 31, 2014 and 2013, respectively. Net charge-offs declined substantially to 0.30% of average loans in 2015 versus 0.36% in 2014. Our ALLL was 1.23% of total loans at December 31, 2015 compared with 1.28% as of December 31, 2014. We believe the high quality of our loan portfolio provides us with capacity to prudently seek to add more attractive, higher yielding risk-adjusted returns while still maintaining appropriate risk discipline and solid asset quality.
- Commitment to Communities: Community involvement is one of our principal values and we strive to contribute to a better quality of life by serving the communities across our footprint through employee volunteer efforts, a foundation that funds a range of non-profit organizations and executives that provide board leadership to community organizations. These efforts contribute to a culture that seeks to promote positive employee morale and provide differentiated brand awareness in the community relative to peer banks, while also making a positive difference within the communities we serve. Employees gave more than 70,000 volunteer hours in 2015 and also served on over 550 community boards across our footprint. We believe our strong commitment to our communities provides a competitive advantage by strengthening customer relationships and increasing loyalty.

Business Strategy

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

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

(1) According to SNL Financial.

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

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

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

In order to successfully execute on these principles, we have developed the following strategic priorities, each of which are underpinned by a series of initiatives as summarized below. We have made solid progress on our strategic priorities and the underlying initiatives over the past year, due primarily to the strength of our business model, management team, culture of accountability and risk management.

Position Consumer Banking to deliver improved capabilities and profitability: Consumer Banking offers a "Simple. Clear. Personal." value proposition to our customers. The focus is on building strong customer relationships along with a robust product portfolio that is designed to be simple and easy to understand while creating a fair value exchange for our customers. The following initiatives are being implemented to execute against our value proposition:

- Re-energize household growth and deepen relationships— We strive to grow and deepen existing customer relationships by delivering a differentiated customer experience. We believe this approach will enable us to win, retain and expand customer relationships, as well as increase cross-sell and share of wallet penetration. We will also continue to invest in our online and mobile channels and optimize our distribution network. We recently launched an effort to improve multi-channel sales effectiveness, with the goal of deepening customer relationships using a needs based approach ("Citizens Checkup").
- Expand and enhance Wealth Management— We view our wealth management business as an opportunity for continued growth and as vital to deepening the customer relationship and improving fee income generation.
- Build a strong Residential Mortgage business— Recognizing the critical importance of the mortgage product to the customer experience and relationship, we are building out our mortgage team and platform to achieve a solid market share position and generate consistent origination volumes. We are focused on improving penetration with our existing customer base and increasing our origination mix of conforming loans.
- Drive growth in Student Lending and installment loans— We have identified the underserved private student lending market as an attractive source of risk-adjusted revenue growth. We are well-positioned for growth in student lending with a unique education refinance product that serves a critical borrower need. We also have strong expertise in unsecured based lending based on a partnership with Apple.
- Invest in and grow Business Banking— We have recognized that strengthening efforts in the business banking market is critical to grow profitable relationships and drive scalable growth of the franchise. We view this as an important source for loans, deposits, and cash management revenue.
- Optimize indirect Auto business— Our auto initiative supports diversification of revenue generation outside of our traditional retail distribution channels. We continue to optimize this business through prudent expansion of originations across a broader credit spectrum to include predominantly prime borrowers and enhancing our

pricing strategy to price loans in more granular ways (e.g., vehicle type, geography).

These initiatives have already resulted in a stronger Consumer franchise in 2015, highlighted by net checking account growth of approximately 28,000 and nearly 2.2 million checking households. Additionally, Consumer Banking average loans and leases of $51.5 billion for the year ended December 31, 2015 grew $3.7 billion, or 8%, from the year ended December 31, 2014.

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Continue the momentum in Commercial Banking: We continue to see further build-out of the Commercial Banking business as critical to achieving a balanced business mix, and consequently have grown the contribution of Commercial loans to be 45% of operating segment loans. The initiatives below have enabled the Commercial Banking business to continue its positive momentum while building upon existing strengths to further develop the "Thought Leadership" value proposition.

- Strengthen Middle Market— We are continuing to build on our strong core relationships and capabilities in the middle market, which will drive client growth and better share of wallet penetration. In 2015, we improved customer pricing and cross-sell efforts through enhanced pricing calculators and customer analytics.
- Build out Mid-Corporate and Industry Verticals— Since the third quarter of 2013, we have been building capabilities nationally in the mid-corporate space, which is focused on serving larger, mostly public clients with annual revenue of more than $500 million. The geographic expansion has been selective and in markets where our established expertise and product capabilities can be relevant. We have focused our growth on specialty verticals where we can leverage industry expertise (e.g., Healthcare, Technology, Oil and Gas).
- Development of Capital & Global Markets— We are strengthening capabilities in Capital Markets to provide comprehensive solutions to meet client needs, including building an institutional sales capability, loan trading desk, broker-dealer, and fixed income capabilities.
- Build out Treasury Solutions— We have made investments to upgrade our Treasury Solutions systems and products while also strengthening the leadership team to better meet client needs and diversifying the revenue base into other noninterest income areas. In 2015, we better aligned our Treasury Services pricing to the market, allowing us to continue to invest in our products and capabilities.
- Leverage Franchise Finance capabilities with credibility— We are a top provider of capital to leading franchisees from concepts including McDonald's, Taco Bell, Dunkin' Donuts, Buffalo Wild Wings, Wendy's and Applebee's. We are also broadening our target market to focus on regional restaurant operating companies and expanding penetration of gas station and convenience dealers.
- Optimize Commercial Real Estate— New product and market investments we've made in CRE have improved asset and return growth in recent years. We will continue to grow our CRE business, while prudently balancing market and product risk with portfolio growth.
- Reposition Asset Finance— We are repositioning our asset finance business to focus on cross-sell referrals from our Middle Market and Mid-Corporate businesses (while in the past we leveraged referrals from RBS). In addition, we are focusing on industries and collaterals where we have expertise including trucking, rail, construction, and renewable energy. These moves are designed to improve returns, while focusing on areas where we have demonstrated a strong balance of risk and returns.

The Commercial Banking business has continued to display solid financial results and executed well on these initiatives with loan portfolio growth of $3.9 billion, or 10%, year-over-year along with strong deposit growth as average deposits increased $3.6 billion in 2015, or 18%, compared to the average level of deposits for 2014.

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

Over the past year, we have begun to grow the consolidated balance sheet again, through organic growth and selective portfolio purchases:

- Total assets increased $5.4 billion to $138.2 billion at December 31, 2015, or 4%, compared to December 31, 2014;
- Loans and leases (excluding loans and leases held for sale) increased by $5.6 billion, or 6%, from December 31, 2014, reflecting a $3.0 billion increase in commercial and a $2.6 billion increase in retail loans; and
- Total deposits (excluding deposits held for sale) increased $6.8 billion, or 7%, compared with December 31, 2014, driven by growth in money market, demand, and regular savings.

Balance sheet expansion is critical to executing on our strategic priority of enhancing our return profile and efficiency by better leveraging our existing capital position, infrastructure and expense base.

Develop a high-performing, customer-centric organization and culture: In the midst of an evolving and challenging business environment, we are focused on delivering the best possible banking experience through our colleagues. As such, we strive to ensure that managers and colleagues are customer centric, have a commitment to excellence and live the values and credo every day. To further strengthen the organization’s health, we have embarked on initiatives focused on recruiting, talent management, succession planning, leadership development, organizational structure and incentives.

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

Focus on Improved Efficiency and Disciplined Expense Management: We believe that our focus on operational efficiency is critical to our profitability and ability to reinvest in the franchise. We launched an initiative in late 2014 designed to improve the effectiveness, efficiency, and competitiveness of the franchise ("Project Top"). Reflecting our ability to execute, Project Top has achieved approximately $200 million of run-rate expense savings by the end of 2015. As part of our continuous improvement efforts, we began executing on the second phase of efficiency improvements as part of Project Top 2. As part of Project Top 2, there are several efficiency initiatives that focus on improving our operations and better discipline around our third party spend.

Our strategic initiatives are focused on the fundamentals of growing customers, relationships, loans, deposits, total revenue and overall profitability. While the above priorities are designed to enhance performance over the long-term, successful execution to date has resulted in improved financial performance in 2015, as highlighted below:

- Net income of $871 million in 2015 (excluding after-tax restructuring charges and special items of $31 million) increased 10% compared to $790 million in 2014 (excluding a net $180 million after-tax gain related to the Chicago Divestiture and $105 million after-tax restructuring charges and special noninterest expense items);
- Net interest margin of 2.75% in 2015 was down eight basis points from 2014 due to the continued effect of the low interest rate environment;
- Credit quality continued to improve with net charge-offs declining to 0.30% of average loans in 2015 compared to 0.36% of average loans in 2014; and
- ROTCE (excluding restructuring charges and special items) of 6.69% in 2015 increased 56 basis points from 6.13% in 2014.

The adjusted results above are not recognized under GAAP. For more information on the computation of these non-GAAP financial measures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures" in Part II, Item 7, included elsewhere in this report.

Competition

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

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

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

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Intellectual Property

In the highly competitive banking industry in which we operate, trademarks, service marks, trade names and logos are important to the success of our business. We own and license a variety of trademarks, service marks, trade names, logos and pending registrations and are spending significant resources to develop our stand-alone brands. In connection with our initial public offering, we entered into a trademark license agreement, pursuant to which we were granted a limited license to use certain RBS trademarks (including the daisywheel logo) for an initial term of five years and, at our option, up to 10 years. The trademark license agreement was partially terminated in 2015, in connection with RBS's exit of its ownership interest in our common stock. As part of the partial termination, we were required to remove the "RBS" brand name from our products and services, which we completed in the third quarter of 2015. Under the agreement, we lose the right to use the "RBS" acronym in connection with the marketing of any product or service as we rebrand and cease using the RBS brand in connection with such product or service, subject to certain limited exceptions. We have changed the legal names of substantially all of our subsidiaries that included "RBS" and have rebranded CFG and our banking subsidiaries.

Information Technology Systems

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

Regulation and Supervision

Our operations are subject to extensive regulation, supervision and examination under federal and state law. These laws and regulations cover all aspects of our business, including lending practices, safeguarding deposits, customer privacy and information security, capital structure, transactions with affiliates and conduct and qualifications of personnel. These laws and regulations are intended primarily for the protection of depositors, the Deposit Insurance Fund and the banking system as a whole and not for the protection of shareholders and creditors.

The Dodd-Frank Act, and the rules that followed restructured the financial regulatory regime in the United States. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, addressing, among other things, systemic risk, capital adequacy, deposit insurance assessments, consumer financial protection, regulation of derivatives and securities markets, restrictions on an insured bank's transactions with its affiliates, lending limits and mortgage-lending practices. Various provisions of the Dodd-Frank Act continue to require the issuance of implementing regulations, making it difficult to anticipate the ultimate overall impact to us, our subsidiaries or the financial industry more generally. Although the overall impact cannot be predicted with any degree of certainty, the Dodd-Frank Act will affect us across a wide range of areas.

As a general matter, the federal banking agencies (the FRB, the OCC and the FDIC) as well as the CFPB are taking a more stringent approach to supervising and regulating financial institutions and financial products and services over which they exercise their respective supervisory authorities, including in connection with enforcement matters. We, our two banking subsidiaries and our products and services are all subject to greater supervisory scrutiny and enhanced supervisory requirements and expectations and face significant challenges in meeting them. We expect to continue to face greater supervisory scrutiny and enhanced supervisory requirements for the foreseeable future.

General

CFG is a bank holding company under the Bank Holding Company Act of 1956 ("Bank Holding Company Act"). We have elected to be treated as a financial holding company under amendments to the Bank Holding Company Act as effected by GLBA. We are subject to regulation, supervision and examination by the FRB, including through the Federal Reserve Bank of Boston. The FRB serves as the primary regulator of our consolidated organization.

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

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

A principal objective of the U.S. bank regulatory system is to protect depositors by ensuring the financial safety and soundness of banks. To that end, the banking regulators have broad regulatory, examination and enforcement authority. The regulators regularly examine our operations, and CFG and our banking subsidiaries are subject to periodic reporting requirements.

The regulators have various remedies available if they determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of a banking organization's operations are unsatisfactory. The regulators may also take action if they determine that the banking organization or its management is violating or has violated any law or regulation. The regulators have the power to, among other things:

- Enjoin "unsafe or unsound" practices;
- Require affirmative actions to correct any violation or practice;
- Issue administrative orders that can be judicially enforced and could result in disqualifications from certain activities;
- Direct increases in capital;
- Direct the sale of subsidiaries or other assets;
- Limit dividends and distributions;
- Restrict growth;
- Assess civil monetary penalties and require restitution to injured parties;
- Remove officers and directors; and
- Terminate deposit insurance.

CBNA and CBPA are subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged and limitations on the types of investments that may be made, activities that may be engaged in, the opening and closing of branches and types of services that may be offered. The consumer lending and finance activities of CBNA and CBPA are also subject to extensive regulation under various federal and state laws. These statutes impose requirements on the making, enforcement and collection of consumer loans and on the types of disclosures that must be made in connection with such loans. CBNA and CBPA and certain of their subsidiaries are also prohibited from engaging in certain tie-in arrangements in connection with extensions of credit, leases or sales of property, or furnishing products or services.

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

Financial Holding Company Regulation

GLBA permits a qualifying bank holding company to become a financial holding company. Financial holding companies may engage in a broader range of activities than those permitted for a bank holding company, which are limited to (i) banking, managing or controlling banks, (ii) furnishing services to or performing services for subsidiaries and (iii) activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto. GLBA broadens the scope of permissible activities for financial holding companies to include, among other things, securities underwriting and dealing, insurance underwriting and brokerage, merchant banking and other activities that are declared by the FRB, in cooperation with the Treasury Department, to be "financial in nature or incidental thereto" or that the FRB declares unilaterally to be "complementary" to financial activities. In addition, a financial holding company may conduct permissible new financial activities or acquire permissible non-bank financial companies with after-the-fact notice to the FRB.

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

On March 13, 2014, the OCC determined that CBNA no longer meets the condition to own a financial subsidiary - namely that CBNA must be both well capitalized and well managed. A financial subsidiary is permitted to engage in a broader range of activities, similar to those of a financial holding company, than those permissible for a national bank itself. CBNA has two financial subsidiaries, Citizens Securities, Inc., a registered broker-dealer, and RBS Citizens Insurance Agency, Inc., a dormant entity. CBNA has entered into an agreement with the OCC (the "OCC Agreement") pursuant to which the Company has developed and submitted to the OCC a remediation plan, that sets forth the specific actions it will take to bring itself back into compliance with the conditions to own a financial subsidiary. CBNA has made substantial progress toward completing those actions. However, until the plan has been completed to the OCC's satisfaction, CBNA will be subject to restrictions on its ability to acquire control or hold an interest in any new financial subsidiary and to commence new activities in any existing financial subsidiary without the prior consent of the OCC.

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

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

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

Standards for Safety and Soundness

The FDIA requires the FRB, OCC and FDIC to prescribe operational and managerial standards for all insured depository institutions, including CBNA and CBPA. The agencies have adopted regulations and interagency guidelines which set forth the safety and soundness standards used to identify and address problems at insured depository institutions before capital becomes impaired. If an agency determines that a bank fails to satisfy any standard, it may require the bank to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and soundness compliance plans.

Under Section 616 of the Dodd-Frank Act, which codifies the FRB's long-standing "source of strength" doctrine, any bank holding company that controls an insured depository institution must serve as a source of financial and managerial strength for its depository institution subsidiary. The statute defines "source of financial strength" as the ability to provide financial assistance in the event of the financial distress at the insured depository institution. The FRB may require a bank holding company to provide such support at times when it may not have the financial resources to do so or when doing so is not otherwise in the interests of CFG or its shareholders or creditors.

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

Dividends

Various federal and state statutory provisions and regulations, as well as regulatory expectations, limit the amount of dividends that we and our subsidiaries may pay. Dividends payable by CBNA, as a national bank subsidiary, are limited to the lesser of the amount calculated under a "recent earnings" test and an "undivided profits" test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net income combined with the retained net income of the two preceding years, less any required transfers to surplus, unless the national bank obtains the approval of the OCC. Under the undivided profits test, a dividend may be paid only to the extent that retained net profits (as defined and interpreted by regulation), including the portion transferred to surplus, exceed bad debts (as defined by regulation). CBNA is currently required to seek the OCC’s approval prior to paying any dividends to us. Federal bank regulatory agencies have issued policy statements which provide that FDIC-insured depository institutions and their holding companies should generally pay dividends only out of their current operating earnings. Under Pennsylvania law, CBPA may declare and pay dividends only out of accumulated net earnings and only if (i) any required transfer to surplus has been made prior to declaration of the dividend and (ii) payment of the dividend will not reduce surplus.

Furthermore, with respect to both CBNA and CBPA, if, in the opinion of the applicable federal regulatory agency, either is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), the regulator may require, after notice and hearing, that such bank cease and desist from such practice. The OCC and the FDIC have indicated that the payment of dividends would constitute an unsafe and unsound practice if the payment would reduce a depository institution's capital to an inadequate level. The banking agencies have significant discretion to limit or even preclude dividends, even if the statutory quantitative thresholds are satisfied.

Supervisory stress tests conducted by the FRB in connection with its annual CCAR process, discussed in greater detail below, affect our ability to make capital distributions. As part of the CCAR process, the FRB evaluates institutions' capital adequacy and internal capital adequacy assessment processes to ensure that they have sufficient capital to continue operations during periods of economic and financial stress. The FRB must approve any planned distribution of capital in connection with the CCAR process.

In March 2015, the FRBG assessed our current capital plan as submitted and documented under the CCAR process and raised no objection to the plan. Unless we choose to file an amended capital plan prior to April 2016, the maximum levels at which we may declare dividends and repurchase shares of our common stock through June 30, 2016 are governed by our 2015 capital plan, subject to actual financial performance and ongoing compliance with internal governance and all other regulatory requirements. The payment of dividends after June 30, 2016 will be subject to FRB objection or non-objection to our 2016 capital plan to be filed by April 5, 2016.

In addition, under the U.S. Basel III capital framework (described further below), the ability of banks and bank holding companies to pay dividends and make other forms of capital distribution will also depend on their ability to maintain a sufficient capital conservation buffer above minimum risk-based ratio requirements that is composed entirely of CET1 capital. The capital conservation buffer requirements began phasing in on January 1, 2016. The ability of banks and bank holding companies to pay dividends, and the contents of their respective dividend policies, could be impacted by a range of regulatory changes made pursuant to the Dodd-Frank Act, many of which still require final implementing rules to become effective. In addition, the FRB generally limits a bank holding company's ability to make quarterly capital distributions — that is, dividends and share repurchases — commencing April 1, 2015 if the amount of the bank's actual cumulative quarterly capital issuances of instruments that qualify as regulatory capital are less than the bank had indicated in its submitted capital plan as to which it received a non-objection from the FRB, subject to certain qualifications and exceptions.

Federal Deposit Insurance Act

The FDIA imposes various requirements on insured depository institutions. For example, the FDIA requires, among other things, that the federal banking agencies take "prompt corrective action" in respect of depository institutions that do not meet minimum capital requirements, which are described below in "Capital." The FDIA sets forth the following five capital tiers: "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors that are established by regulation.

The FDIA prohibits any depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be "undercapitalized." "Undercapitalized" institutions are subject to growth limitations and are required to submit a capital restoration plan. For a capital restoration plan to be acceptable, among other things, the depository institution's parent holding company must guarantee that the institution will comply with the capital restoration plan. If a depository institution fails to submit an acceptable capital restoration plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," orders to elect a new board of directors, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

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

The FDIA requires CBNA and CBPA to pay deposit insurance assessments. Deposit insurance assessments are based on average consolidated total assets, less average tangible equity and various other regulatory factors included in an FDIC assessment scorecard. Deposit insurance assessments are also affected by the minimum reserve ratio with respect to the DIF. The minimum reserve ratio is currently 2%, and the FDIC is free to increase this ratio in the future. In October 2015, the FDIC issued a proposed rule that would increase the reserve ratio for the Deposit Insurance Fund to 1.35% of total insured deposits. The proposed rule would impose a surcharge on the assessments of larger depository institutions, beginning the quarter after the reserve ratio first reaches or exceeds 1.15% and continuing through the earlier of the quarter that the reserve ratio first reaches or exceeds 1.35% and December 31, 2018. Under the proposed rule, if the reserve ratio does not reach 1.35% by December 31, 2018, the FDIC would impose a shortfall assessment on larger depository institutions. This may result in increased costs for CBNA and CBPA.

Because of the uncertainty as to the outcome of the FDIC's proposals, we cannot provide any assurance as to the ultimate impact of any surcharges on the amount of deposit insurance expense reported in future periods.

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

Capital

We must comply with capital adequacy standards established by the FRB. CBNA and CBPA must comply with similar capital adequacy standards established by the OCC and FDIC, respectively. We currently have capital in excess of the "well-capitalized" standards described below. For more detail on our regulatory capital, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital" in Part II, Item 7, included elsewhere in this report.

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

The U.S. Basel III final rules, among other things, (i) introduced a new capital measure called CET1, (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/ adjustments to capital as compared to existing regulations. Under the U.S. Basel III final rules, the minimum capital ratios effective as of January 1, 2015 are:

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

The U.S. Basel III final rules also introduced a new "capital conservation buffer", composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. Banking institutions with a ratio of CET1 to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer and, if applicable, the countercyclical capital buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

When fully phased in on January 1, 2019, the U.S. Basel III final rules will require CFG, CBNA and CBPA to maintain an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, (iii) a minimum ratio of Total capital to risk-weighted assets of at least 10.5%; and (iv) a minimum leverage ratio of 4%.

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

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

for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

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

Liquidity Standards

Historically, the FRB had evaluated our liquidity as part of the supervisory process, without required formulaic measures. Liquidity risk management and supervision have become increasingly important since the financial crisis. In September 2014, the FRB, OCC and FDIC issued a final rule to implement the Basel III-based U.S. LCR, which is a quantitative liquidity metric designed to ensure that a covered bank or bank holding company maintains an adequate level of unencumbered high-quality liquid assets to cover expected net cash outflows over a 30-day time horizon under an acute liquidity stress scenario. The LCR rule, as adopted, applies in its most comprehensive form only to advanced approaches bank holding companies and depository institutions subsidiaries of such bank holding companies and, in a modified form, to bank holding companies having $50 billion or more in total consolidated assets such as CFG. The modified version of the LCR differs in certain respects from the Basel Committee's version of the LCR, including a narrower definition of high-quality liquid assets, different prescribed cash inflow and outflow assumptions for certain types of instruments and transactions, and a shorter phase-in schedule that began on January 1, 2015 and ends on January 1, 2017. The rule is currently being phased in with 90% compliance required on January 1, 2016 and 100% compliance required on January 1, 2017. We are required to calculate our LCR on a monthly basis. If a covered company fails to meet the required LCR, it must promptly notify its primary federal banking regulator and may be required to take remedial actions. Under a rule proposed by the FRB in November 2015, we would be required to disclose publicly information about certain components of our LCR beginning January 1, 2018. At December 31, 2015, our LCR was above the January 1, 2016 requirement of 90%.

The Basel Committee also has finalized its NSFR, a quantitative liquidity metric designed to promote more medium- and long-term funding of the assets and activities of banks over a one-year time horizon. Although the Basel committee finalized its formulation of the NSFR in 2014 contemplating a January 1, 2018 effective date, the U.S. banking agencies have not yet proposed an NSFR for application to U.S. banking organizations or addressed the scope of banking organizations to which it will apply.

In addition, under the Dodd-Frank Act, the FRB has implemented enhanced prudential standards for bank holding companies with $50 billion or more in total consolidated assets. See "—Enhanced Prudential Standards." These regulations will require us to conduct regular liquidity stress testing over various time horizons and to maintain a buffer of higher liquid assets sufficient to cover expected net cash outflows and projected loss or impairment of funding sources for a short-term liquidity stress scenario. This liquidity buffer requirement is designed to complement the Basel III-based U.S. LCR.

Capital Planning and Stress Testing Requirements

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

The capital plan must cover a "planning horizon" of at least nine quarters (beginning with the quarter preceding the submission of the plan). The FRB has broad authority to object to capital plans, and to require bank holding companies to revise and resubmit their capital plans. Bank holding companies are also subject to an ongoing requirement to revise and resubmit their capital plans upon the occurrence of certain events specified by rule, or when required by the FRB. In addition to other limitations, our ability to make any capital distributions (including dividends and share repurchases) is contingent on the FRB's non-objection to our capital plan under both quantitative and qualitative tests. Should the FRB object to a capital plan, a bank holding company may not make any capital distribution other than those capital distributions that the FRB has indicated non-objection to in writing. Beginning in 2016, participating firms are required to submit their capital plans and stress testing results to the FRB on or before April 5 of each year, instead of on or before January 5 of each year under the prior rules.

The FRB is expected to publish the decisions for all the bank holding companies participating in CCAR 2016, including the reasons for any objection to capital plans, by June 30, 2016. In addition, the Federal Reserve will separately publish the results of its supervisory stress test under both the supervisory severely adverse and adverse scenarios. The information to be released will include, among other things, the FRB's projection of company-specific information, including post-stress capital ratios and the minimum value of these ratios over the planning horizon.

The FRB recently amended its capital planning and stress testing rules to, among other things, generally limit our ability to make quarterly capital distributions - that is, dividends and share repurchases - commencing July 1, 2016 if the amount of our actual cumulative quarterly capital issuances of instruments that qualify as regulatory capital are less than we had indicated in our submitted capital plan as to which we receive a non-objection from the FRB.

Due to the importance and intensity of the stress tests and the CCAR process, we have dedicated significant resources to comply with stress testing and capital planning requirements and expect to continue to do so in the future.

Final Regulations Under the Volcker Rule
The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in, sponsoring and having certain relationships with private funds such as hedge funds or private equity funds that would be an investment company for purposes of the Investment Company Act of 1940 but for the exclusions in sections 3(c)(1) or 3(c)(7) of that act, both subject to certain limited exceptions. The statutory provision is commonly called the "Volcker Rule." In December 2013, the FRB, OCC, FDIC, the SEC and the Commodity Futures Trading Commission issued final rules to implement the Volcker Rule. On December 18, 2014, the FRB issued an order extending the Volcker Rule's conformance period until July 21, 2016, for investments in and relationships with "covered funds" and certain foreign funds that were in place on or prior to December 31, 2013. Subject to these extensions, we had until July 2015 to comply with other provisions of the Volcker Rule. These Volcker Rule prohibitions are expected to impact the ability of U.S. banking organizations to provide investment management products and services that are competitive with non-banking firms generally and with non-U.S. banking organizations in overseas markets. The Volcker Rule would also effectively prohibit short-term trading strategies by any U.S. banking organization if those strategies do not fall under the limited exceptions, such as the exceptions for market making-related activities and risk-mitigating hedging.
Resolution Plans
FRB and FDIC regulations require a bank holding company with more than $50 billion in assets to annually submit a resolution plan that explains the company's strategy, in the event of material financial distress or failure, for rapid, orderly and systemically safe resolution. If the FRB and the FDIC jointly determine that the resolution plan of a bank holding company is not credible, and the company fails to cure the deficiencies in a timely manner, then the FRB and the FDIC may jointly impose on the company, or on any of its subsidiaries, more stringent capital, leverage or liquidity requirements or restrictions on growth, activities or operations, or require the divestment of certain assets or operations. Because RBS no longer controls us for bank regulatory purposes, we will separately file our own bank holding company resolution plan with the FRB and FDIC in accordance with their regulations, including required timelines.
In addition, an insured depository institution with more than $50 billion in assets, including CBNA, must submit to the FDIC a resolution plan that explains how that institution could be resolved in a manner that is orderly and that ensures that depositors will receive access to insured funds within certain required timeframes. On December 23, 2015, we submitted our resolution plan for CBNA to the FDIC.
Enhanced Prudential Standards
The Dodd-Frank Act requires the FRB to impose liquidity, single counterparty credit limits, risk management and other enhanced prudential standards for bank holding companies with $50 billion or more in total consolidated assets, including us. Since January 1, 2015, the enhanced prudential standards implemented by the FRB, have required subject bank holding companies to comply with enhanced liquidity and overall risk management standards and maintain a liquidity buffer of unencumbered highly liquid assets based on the results of internal liquidity stress testing. The final rules also established certain requirements and responsibilities for our risk committee and mandates certain risk management standards. Although the liquidity buffer under these rules has some similarities to the LCR (and is described by the agencies as complementary to the LCR), it is a separate requirement that is in addition to the LCR. Final rules on single counterparty credit limits and an early remediation framework have not yet been promulgated.
Heightened Risk Governance Standards
In September 2014, the OCC finalized guidelines that establish heightened standards for large national banks with average total consolidated assets of $50 billion or more, including CBNA. The guidelines set forth minimum standards for the design and implementation of a bank's risk governance framework, and minimum standards for oversight of that framework by a bank's board of directors. The guidelines are an extension of the OCC's "heightened expectations" for large banks that the OCC began informally communicating to certain banks in 2010. The guidelines are intended to protect the safety and soundness of covered banks and improve bank examiners' ability to assess compliance with the OCC's expectations. Under the guidelines, a bank could use certain components of its parent company's risk governance framework, but the framework must ensure that the bank's risk profile is easily

distinguished and separate from the parent for risk management and supervisory purposes. A bank's board of directors is required to have two members who are independent of the bank and parent company management. A bank's board of directors is responsible for ensuring that the risk governance framework meets the standards in the guidelines, providing active oversight and a credible challenge to management's recommendations and decisions and ensuring that the parent company decisions do not jeopardize the safety and soundness of the bank.

Protection of Customer Personal Information and Cybersecurity

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

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

Anti-Tying Restrictions

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

Community Reinvestment Act Requirements

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

Rules Affecting Debit Card Interchange Fees

Interchange fees, or "swipe" fees, are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. FRB rules applicable to financial institutions that have assets of $10 billion or more provide that the maximum permissible interchange fee for an electronic debit transaction is the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. An upward adjustment of no more than 1 cent to an issuer's debit card interchange fee is allowed if the card issuer develops and implements policies and procedures reasonably designed to achieve certain fraud-prevention standards.

Consumer Financial Protection Regulations

The retail activities of banks are subject to a variety of statutes and regulations designed to protect consumers. Loan operations are also subject to federal laws applicable to credit transactions, such as:

- Federal Truth-In-Lending Act and Regulation Z issued by the CFPB, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act and Regulation C issued by the CFPB, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
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- Equal Credit Opportunity Act and Regulation B issued by the CFPB, prohibiting discrimination on the basis of various prohibited factors in extending credit;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- Service Members Civil Relief Act, applying to all debts incurred prior to commencement of active military service (including credit card and other open-end debt) and limiting the amount of interest, including service and renewal charges and any other fees or charges (other than bona fide insurance) that is related to the obligation or liability.

Deposit operations also are subject to, among others:

- Truth in Savings Act and Regulation DD issued by the CFPB, which require disclosure of deposit terms to consumers;
- Expected Funds Availability Act and Regulation CC issued by the FRB, which relates to the availability of deposit funds to consumers;
- Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- Electronic Funds Transfer Act and Regulation E issued by the CFPB, which governs automatic deposits to and withdrawals from deposit accounts and consumer rights and liabilities arising from the use of automated teller machines and other electronic banking services.

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

The consumer protection provisions of the Dodd-Frank Act, including the transfer of much of the rulemaking, supervision and enforcement authority under various consumer financial laws to the CFPB, and the CFPB's subsequent regulatory, supervisory, and enforcement activity have created a more intense and complex environment for consumer finance regulation. The CFPB is authorized to, among other things, engage in consumer financial education, monitor consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. The CFPB has significant authority to implement and enforce federal consumer finance laws, including the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Credit Billing Act and new requirements for financial services products provided for in the Dodd-Frank Act. The CFPB also has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets, including the authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. We expect increased oversight of financial services products by the CFPB, which are likely to affect our operations. The review of products and practices to prevent such acts and practices is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It also could result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties.

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

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

The CFPB has finalized a number of significant rules which will impact nearly every aspect of the life cycle of a residential mortgage. The final rules require banks to, among other things: (i) develop and implement procedures to ensure compliance with a new "ability to repay" standard and identify whether a loan meets a new definition for a "qualified mortgage;" (ii) implement new or revised disclosures, policies and procedures for servicing mortgages including, but not limited to, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower's principal residence; (iii) comply with additional restrictions on mortgage loan originator compensation; and (iv) comply with new disclosure requirements and standards for appraisals and escrow accounts maintained for "higher priced mortgage loans." These new rules create operational and strategic challenges for us, as we are both a mortgage originator and a servicer. Additional rulemaking affecting the residential mortgage business is also expected. These rules and any other new regulatory requirements promulgated by the CFPB and other federal or state regulators could require changes to our business, result in increased compliance costs and affect the streams of revenue of such business.

In addition, our two banking subsidiaries are currently subject to consent orders issued by the OCC and the FDIC in connection with their findings of deceptive marketing and implementation of some of our checking account and funds transfer products and services. Among other things, the consent orders require us to remedy deficiencies and develop stronger compliance controls, policies and procedures. We have made progress and continue to make progress in addressing these requirements, but the consent orders remain in place and we are unable to predict when they may be terminated.

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

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

In 2009, the federal banking regulators issued additional guidance on commercial real estate lending that emphasizes these considerations.
In addition, the Dodd-Frank Act contains provisions that may cause us to reduce the amount of our commercial real estate lending and increase the cost of borrowing, including rules relating to risk retention of securitized assets. Section 941 of the Dodd-Frank Act requires, among other things, a loan originator or a securitizer of asset-backed securities to retain a percentage of the credit risk of securitized assets. The banking agencies and other federal agencies have jointly promulgated a final rule to implement these requirements.
Transactions with Affiliates and Insiders
A variety of legal limitations restrict us from lending money to, borrowing money from, or in some cases transacting business with CBNA and CBPA. Among such restrictions to which we are subject are Sections 23A and 23B of the Federal Reserve Act and FRB Regulation W. Section 23A places limits on certain specified "covered transactions," which include loans or extensions of credit to, investments in or certain other transactions with affiliates, as well as the amount of advances to third parties collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited to 10% of a bank's capital and surplus for any one affiliate and 20% for all affiliates. Furthermore, within the foregoing limitations as to amount, certain covered transactions must meet specified collateral requirements ranging from 100% to 130%. Also, a bank is prohibited from purchasing low-quality assets from any of its affiliates. Section 608 of the Dodd-Frank Act broadens the definition of "covered transactions" to include derivative transactions and the borrowing or lending of securities if the transaction will cause a bank to have credit exposure to an affiliate. The revised definition also includes the acceptance of debt obligations of an affiliate as collateral for a loan or extension of credit to a third party. Furthermore, reverse repurchase transactions are viewed as extensions of credit (instead of asset purchases) and thus become subject to collateral requirements. The Federal Reserve has not yet issued regulations to implement Section 608.
Section 23B prohibits an institution from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with non-affiliated companies. Except for limitations on low-quality asset purchases and transactions that are deemed to be unsafe or unsound, Regulation W generally excludes affiliated depository institutions from treatment as affiliates. Transactions between a bank and any of its subsidiaries that are engaged in certain financial activities may be subject to the affiliated transaction limits. The FRB also may designate banking subsidiaries as affiliates.
Pursuant to FRB Regulation O, we are also subject to quantitative restrictions on extensions of credit to executive officers, directors, principal stockholders and their related interests. In general, such extensions of credit (i) may not exceed certain dollar limitations, (ii) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (iii) must not involve more than the normal risk of repayment or present other unfavorable features. Certain extensions of credit also require the approval of our Board.
Anti-Money Laundering

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

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

In addition, the Federal Bureau of Investigation may send bank regulatory agencies lists of the names of persons suspected of involvement in terrorist activities. We can be requested to search our records for any relationships or transactions with persons on those lists and may be required to report any identified relationships or transactions.

Office of Foreign Assets Control Regulation

OFAC is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes, and routinely updates, lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, including the Specially Designated Nationals and Blocked Persons. We are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. If we find a name on any transaction, account or wire transfer that is on an OFAC list, we must freeze such account, file a suspicious activity report and notify the appropriate authorities. Failure to comply with these sanctions could have serious legal and reputational consequences.

Other Regulatory Matters

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

In order to remedy certain weaknesses, including the weaknesses cited by the FRB in relation to our capital planning processes and the weaknesses we are working to remedy pursuant to the OCC and FDIC consent orders, and meet our significant regulatory and supervisory challenges, we believe we need to make substantial improvements to our processes, systems and controls. See Note 17 "Commitments and Contingencies" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report. We expect to continue to dedicate significant resources and managerial time and attention and to make significant investments in enhanced processes, systems and controls. This in turn may increase our operational costs and limit our ability to implement aspects of our strategic plan or otherwise pursue certain business opportunities. We also expect to make restitution payments to our banking subsidiaries' customers, which could be significant, arising from certain customer compliance deficiencies and may be required to pay civil money penalties in connection with certain of these deficiencies. We have established reserves in respect of these future payments, but the amounts that we are ultimately obligated to pay could be in excess of our reserves. Moreover, if we are unsuccessful in remedying these weaknesses and meeting the enhanced supervisory requirements and expectations that apply to us and our banking subsidiaries, we could remain subject to existing restrictions or become subject to additional restrictions on our activities, supervisory actions or public enforcement actions, including the payment of civil money penalties.

Employees

As of December 31, 2015, we had approximately 17,700 FTEs, which included our approximately 17,100 full-time colleagues, 300 part-time colleagues and approximately 300 positions filled by temporary employees. None of our employees are parties to a collective bargaining agreement. We consider our relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements.

ITEM 1A. RISK FACTORS

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

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

Risks Related to Our Business

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

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

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

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

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

We also have been required to make improvements to our overall compliance and operational risk management programs and practices in order to comply with enhanced supervisory requirements and expectations and to address weaknesses in retail credit risk management, liquidity risk management, model risk management, outsourcing and vendor risk management and related oversight and monitoring practices and tools. Our and our banking subsidiaries' consumer compliance program and controls also require improvement in a variety of areas, including with respect to deposit reconciliation processes, fair lending and mortgage servicing. In addition to the foregoing, as part of the supevisory and examination process, from time to time we and our banking subsidiaries may become, and currently are, subject to prudential restrictions on our activities. Similarly, under the Bank Holding

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

While we have made significant progress in enhancing our compliance and risk programs, if we are unsuccessful in remedying these weaknesses and meeting the enhanced supervisory requirements and expectations that apply to us and our banking subsidiaries, we could remain subject to existing restrictions or become subject to additional restrictions on our activities, informal (nonpublic) or formal (public) supervisory actions or public enforcement actions, including the payment of civil money penalties. Any such actions or restrictions, if and in whatever manner imposed, would likely increase our costs and could limit our ability to implement our strategic plans and expand our business, and as a result could have a material adverse effect on our business, financial condition or results of operations. For more information regarding ongoing regulatory actions in which we are involved and certain identified past practices and policies for which we faced formal administrative enforcement actions, see Note 17 “Commitments and Contingencies” and Note 21 “Regulatory Matters” to our audited Consolidated Financial Statements included in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in the report, for further discussion.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The value of our goodwill may decline in the future.

As of December 31, 2015, we had $6.9 billion of goodwill. A significant decline in our expected future cash flows, a significant adverse change in the business climate, substantially slower economic growth or a significant and sustained decline in the price of our common stock, any or all of which could be materially impacted by many of the risk factors discussed herein, may necessitate our taking charges in the future related to the impairment of our goodwill. If we were to conclude that a future write-down of our goodwill is necessary, we would record the appropriate charge, which could be material to our operations. For additional information regarding our goodwill impairment testing, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates" in Part II, Item 7, included elsewhere in this report.

Operational risks are inherent in our businesses.

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

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

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

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

Cyber-attacks, distributed denial of service attacks and other cyber-security matters, if successful, could adversely affect how we conduct our business.

We are under continuous threat of loss due to cyber-attacks, especially as we continue to expand customer capabilities to utilize the Internet and other remote channels to transact business. Two of the most significant cyber-attack risks that we face are e-fraud and loss of sensitive customer data. Loss from e-fraud occurs when cybercriminals extract funds directly from customers' or our accounts using fraudulent schemes that may include Internet-based funds transfers. We have been subject to a number of e-fraud incidents historically. We have also been subject to attempts to steal sensitive customer data, such as account numbers and social security numbers, through unauthorized access to our computer systems including computer hacking. Such attacks are less frequent but could present significant reputational, legal and regulatory costs to us if successful.

Recently, there has been a series of distributed denial of service attacks on financial services companies, including us. Distributed denial of service attacks are designed to saturate the targeted online network with excessive amounts of network traffic, resulting in slow response times, or in some cases, causing the site to be temporarily unavailable. Generally, these attacks are conducted to interrupt or suspend a company's access to Internet service. The attacks can adversely affect the performance of a company's website and in some instances prevent customers from accessing a company's website. We have implemented certain technology protections such as Customer Profiling and Step-Up Authentication to be in compliance with the Federal Financial Institutions Examination Council ("FFIEC") Authentication in Internet Banking Environment ("AIBE") guidelines. However, potential cyber threats that include hacking and other attempts to breach information technology security controls are rapidly evolving and we may not be able to anticipate or prevent all such attacks. In the event that a cyber-attack is successful, our business, financial condition or results of operations may be adversely affected.

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

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

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

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

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

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

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

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

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

Our net DTAs are subject to an evaluation of whether it is more likely than not that they will be realized for financial statement purposes. In making this determination, we consider all positive and negative evidence available, including the impact of recent operating results, as well as potential carry-back of tax to prior years' taxable income, reversals of existing taxable temporary differences, tax planning strategies and projected earnings within the statutory tax loss carryover period. We have determined that the DTAs are more likely than not to be realized at December 31, 2015 (except for $123 million related to state DTAs for which a valuation allowance was established). If we were to conclude that a significant portion of the DTAs were not more likely than not to be realized, the required valuation allowance could adversely affect our financial condition and results of operations.

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

At December 31, 2015, we maintained an investment of approximately $598 million in entities for which we receive allocations of tax credits, which we utilize to offset our taxable income. We accrued $45 million and $26 million in credits for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015, all tax credits have been utilized to offset taxable income. Substantially all of these tax credits are related to development projects that are subject to ongoing compliance requirements over certain periods of time to fully realize their value. If these projects are not operated in full compliance with the required terms, the tax credits could be subject to recapture or restructuring. Further, we may not be able to utilize any future tax credits. If we are unable to utilize our tax credits or, if our tax credits are subject to recapture or restructuring, it could have a material adverse effect on our business, financial condition and results of operations.

Any failure by us to successfully replicate or replace certain functions, systems and infrastructure previously provided by RBS or fail to resolve conflicts of interest or disputes between RBS and us in areas relating to our past and ongoing relationships could have a material adverse effect on us.

We will need to replicate or replace certain functions, systems and infrastructure to which we no longer have the same access since our separation from RBS, including services we receive pursuant to the Transitional Services Agreement. We will also need to make infrastructure investments in order to operate without the same access to RBS's existing operational and administrative infrastructure. Any failure to successfully implement these initiatives or to do so in a timely manner could have an adverse effect on us.

Although RBS has fully exited its ownership stake in our common stock, questions relating to conflicts of interest and actual disputes may arise between RBS and us in a number of areas relating to our past and ongoing relationships. Areas in which conflicts of interest or disputes between RBS and us could arise include, but are not limited to, interruptions to or problems with services provided under the Transitional Services Agreement with RBS that increase our costs both for the processing of business and the potential remediation of disputes and other commercial and referral arrangements with RBS. If we are unable to identify or execute on opportunities that offset any decrease or termination of any commercial relationships with RBS, our financial results may be adversely affected. Moreover, disagreements may arise between us and RBS regarding the provision or quality of any such services rendered, which may materially adversely affect this portion of our business.

Risks Related to Our Industry

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

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

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

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

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

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

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

Risks Related to Regulations Governing Our Industry

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial-services industry, addressing, among other things, (i) systemic risk, (ii) capital adequacy, (iii) consumer financial protection, (iv) interchange fees, (v) mortgage lending practices, and (vi) regulation of derivatives and securities markets. A significant number of the provisions of the Dodd-Frank Act still require extensive rulemaking and interpretation by regulatory authorities. In several cases, authorities have extended implementation periods and delayed effective dates. Accordingly, in many respects the ultimate impact of the Dodd-Frank Act and its effects on the U.S. financial system and on us will not be known for an extended period of time. See “Regulation and Supervision” in Part I, Item 1 — Business, included elsewhere in this report, for further discussion of the regulations to which we are subject.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to our Common Stock

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

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

- quarterly variations in our results of operations or the quarterly financial results of companies perceived to be similar to us;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;

- our announcements or our competitors’ announcements regarding new products or services, enhancements, significant contracts, acquisitions or strategic investments;
- fluctuations in the market valuations of companies perceived by investors to be comparable to us;
- future sales of our common stock;
- additions or departures of members of our senior management or other key personnel;
- changes in industry conditions or perceptions; and
- changes in applicable laws, rules or regulations and other dynamics.

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

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

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

We may not pay cash dividends on our common stock.

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

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

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

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

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

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters is in Providence, Rhode Island. As of December 31, 2015, we leased approximately 5.5 million square feet of office and retail branch space. Our portfolio of leased space consisted of 3.6 million square feet of retail branch space which spanned eleven states and 1.9 million square feet of non-branch office space. As of December 31, 2015, we owned an additional 600,000 square feet of office and branch space. We operated 82 branches in Rhode Island, 44 in Connecticut, 246 in Massachusetts, 20 in Vermont, 71 in New Hampshire, 146 in New York, 11 in New Jersey, 358 in Pennsylvania, 23 in Delaware, 114 in Ohio and 97 in Michigan. Of these branches, 1,171 were leased and the rest were owned. These properties were used by both the Consumer Banking and Commercial Banking segments. Management believes the terms of the various leases were consistent with market standards and were derived through arm's-length bargaining. We also believe that our properties are in good operating condition and adequately serve our current business operations. We anticipate that suitable additional or alternative space, including those under lease options, will be available at commercially reasonable terms for future expansion.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

CITIZENS FINANCIAL GROUP, INC.

PART II

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

The common stock of Citizens is traded on the New York Stock Exchange under the symbol "CFG." As of January 5, 2016, our common stock was owned by one holder of record (Cede & Co.) and approximately 104,000 beneficial shareholders whose shares were held in "street name" through a broker or bank. Information regarding the high and low sale prices of our common stock and cash dividends declared on such shares, as required by this item, is presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Quarterly Results of Operations" in Part II, Item 7, included elsewhere in this report. Information regarding restrictions on dividends, as required by this Item, is presented in Note 21 "Regulatory Matters" and Note 27 "Parent Company Only Financials" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report. Information relating to compensation plans under which our equity securities are authorized for issuance is presented in "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in Part III, Item 12, included elsewhere in this report.

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

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

	9/24/2014	9/30/2014	12/31/2014	3/31/2015	6/30/2015	9/30/2015	12/31/2015
CFG	$100	$101	$108	$105	$120	$105	$116
S&P 500 Index	100	99	104	105	105	98	105
KBW BKX Index	100	98	103	100	108	98	103
Peer Regional Bank Average	$100	$99	$105	$104	$107	$99	$105

CITIZENS FINANCIAL GROUP, INC.
SELECTED CONSOLIDATED FINANCIAL DATA

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

We derived the selected Consolidated Statement of Operating data for the years ended December 31, 2015, 2014, 2013 and the selected Consolidated Balance Sheet data as of December 31, 2015 and 2014 from our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report. We derived the selected Consolidated Statement of Operations data for the years ended December 31, 2012 and 2011 and the selected Consolidated Balance Sheet data as of December 31, 2013, 2012, and 2011 from our audited Consolidated Financial Statements, not included herein. Our historical results are not necessarily indicative of the results expected for any future period.

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

	For the Year Ended December 31,				
(dollars in millions, except per share amounts)	2015	2014	2013	2012	2011
OPERATING DATA:					
Net interest income	$3,402	$3,301	$3,058	$3,227	$3,320
Noninterest income	1,422	1,678	1,632	1,667	1,711
Total revenue	4,824	4,979	4,690	4,894	5,031
Provision for credit losses	302	319	479	413	882
Noninterest expense	3,259	3,392	7,679	3,457	3,371
Noninterest expense, excluding goodwill impairment (1)	3,259	3,392	3,244	3,457	3,371
Income (loss) before income tax expense (benefit)	1,263	1,268	(3,468)	1,024	778
Income tax expense (benefit)	423	403	(42)	381	272
Net income (loss)	840	865	(3,426)	643	506
Net income, excluding goodwill impairment (1)	840	865	654	643	506
Net income (loss) available to common stockholders	833	865	(3,426)	643	506
Net income available to common stockholders, excluding goodwill impairment (1)	833	865	654	643	506
Net income (loss) per average common share - basic (2)	1.55	1.55	(6.12)	1.15	0.90
Net income (loss) per average common share - diluted (2)	1.55	1.55	(6.12)	1.15	0.90
Net income per average common share - basic, excluding goodwill impairment (1) (2)	1.55	1.55	1.17	1.15	0.90
Net income per average common share - diluted, excluding goodwill impairment (1) (2)	1.55	1.55	1.17	1.15	0.90
Dividends declared and paid per common share	0.40	1.43	2.12	0.27	—
OTHER OPERATING DATA:					
Return on average common equity (3)	4.30 %	4.46 %	(15.69 %)	2.69 %	2.19 %
Return on average common equity, excluding goodwill impairment (1)	4.30	4.46	3.00	2.69	2.19
Return on average tangible common equity (1)	6.45	6.71	(25.91)	4.86	4.18
Return on average tangible common equity, excluding goodwill impairment (1)	6.45	6.71	4.95	4.86	4.18
Return on average total assets (4)	0.62	0.68	(2.83)	0.50	0.39
Return on average total assets, excluding goodwill impairment (1)	0.62	0.68	0.54	0.50	0.39
Return on average total tangible assets (1)	0.65	0.71	(3.05)	0.55	0.43

Return on average total tangible assets, excluding goodwill impairment (1)	0.65	0.71	0.58	0.55	0.43
Efficiency ratio (1)	67.56	68.12	163.73	70.64	67.00
Efficiency ratio, excluding goodwill impairment (1)	67.56	68.12	69.17	70.64	67.00
Net interest margin (5)	2.75	2.83	2.85	2.89	2.97

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CITIZENS FINANCIAL GROUP, INC.
SELECTED CONSOLIDATED FINANCIAL DATA

	As of December 31,				
(in millions)	2015	2014	2013	2012	2011
BALANCE SHEET DATA:					
Total assets	$138,208	$132,857	$122,154	$127,053	$129,654
Loans and leases [6]	99,042	93,410	85,859	87,248	86,795
Allowance for loan and lease losses	1,216	1,195	1,221	1,255	1,698
Total securities	24,075	24,704	21,274	19,439	23,371
Goodwill	6,876	6,876	6,876	11,311	11,311
Total liabilities	118,562	113,589	102,958	102,924	106,261
Total deposits [7]	102,539	95,707	86,903	95,148	92,888
Federal funds purchased and securities sold under agreements to repurchase	802	4,276	4,791	3,601	4,152
Other short-term borrowed funds	2,630	6,253	2,251	501	3,100
Long-term borrowed funds	9,886	4,642	1,405	694	3,242
Total stockholders' equity	19,646	19,268	19,196	24,129	23,393
OTHER BALANCE SHEET DATA:					
Asset Quality Ratios					
Allowance for loan and lease losses as a % of total loans and leases	1.23 %	1.28 %	1.42 %	1.44 %	1.96 %
Allowance for loan and lease losses as a % of nonperforming loans and leases	115	109	86	67	95
Nonperforming loans and leases as a % of total loans and leases	1.07	1.18	1.65	2.14	2.06
Capital Ratios:[8]					
CET1 capital ratio [9]	11.7	12.4	13.5	13.9	13.3
Tier 1 capital ratio [10]	12.0	12.4	13.5	14.2	13.9
Total capital ratio [11]	15.3	15.8	16.1	15.8	15.1
Tier 1 leverage ratio [12]	10.5	10.6	11.6	12.1	11.6

(1) These measures are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures" in Part II, Item 7, included elsewhere in this report.
(2) Earnings per share information reflects a 165,582-for-1 forward stock split effective on August 22, 2014.
(3) "Return on average common equity" is defined as net income (loss) available to common stockholders divided by average common equity.
(4) "Return on average total assets" is defined as net income (loss) divided by average total assets.
(5) "Net interest margin" is defined as net interest income divided by average total interest-earning assets.
(6) Excludes loans held for sale of $365 million, $281 million, $1.3 billion, $646 million, and $564 million as of December 31, 2015, 2014, 2013, 2012, and 2011, respectively.
(7) Excludes deposits held for sale of $5.3 billion as of December 31, 2013.
(8) Basel III transitional rules for institutions applying the Standardized approach to calculating risk-weighted assets became effective January 1, 2015. The capital ratios and associated components as of December 31, 2015 are prepared using the Basel III Standardized transitional approach. The capital ratios and associated components for periods December 31, 2014 and prior are prepared under the Basel I general risk-based capital rule.
(9) CET1 under Basel III replaced the concept of tier 1 common capital that existed under Basel I effective January 1, 2015. "Common equity tier 1 capital ratio" as of December 31, 2015 represents CET1 divided by total risk-weighted

assets as defined under Basel III Standardized approach. The "tier 1 common capital ratio" reported prior to January 1, 2015, represented tier 1 common equity divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

(10) "Tier 1 capital ratio" is tier 1 capital, which includes CET1 capital plus non-cumulative perpetual preferred equity that qualifies as additional tier 1 capital, divided by total risk-weighted assets as defined under Basel III Standardized approach. The "tier 1 capital ratio" reported prior to January 1, 2015, represented tier 1 capital divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

(11) "Total capital ratio" is total capital divided by total risk-weighted assets as defined under Basel III Standardized approach. The "Total capital ratio" reported prior to January 1, 2015, represented total capital divided by total risk-weighted assets as defined under the Basel I general risk-based capital rule.

(12) "Tier 1 leverage ratio" is tier 1 capital divided by quarterly average total assets as defined under Basel III Standardized approach. The "tier 1 leverage ratio" reported prior to January 1, 2015, represented tier 1 capital divided by quarterly average total assets as defined under the Basel I general risk-based capital rule.

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

Overview

We are one of the nation's oldest and largest financial institutions, with $138.2 billion of total assets as of December 31, 2015. Headquartered in Providence, Rhode Island, we deliver a broad range of retail and commercial banking products and services to individuals, institutions and companies. Our approximately 17,700 colleagues strive to meet the financial needs of customers and prospects through approximately 1,200 branches and approximately 3,200 ATMs operated in 11 states in the New England, Mid-Atlantic and Midwest regions and through our online, telephone and mobile banking platforms. We conduct our banking operations through two wholly-owned banking subsidiaries, Citizens Bank, N.A. and Citizens Bank of Pennsylvania.

We operate our business through two operating segments: Consumer Banking and Commercial Banking. Consumer Banking accounted for $51.5 billion and $47.7 billion, or approximately 53% of our average loan and lease balances (including loans held for sale) for both the year ended December 31, 2015 and 2014. Consumer Banking serves retail customers and small businesses with annual revenues of up to $25 million with products and services that include deposit products, mortgage and home equity lending, student loans, auto financing, credit cards, business loans and wealth management and investment services.

Commercial Banking accounted for $41.6 billion and $37.7 billion, or approximately 43% and 42% of our average loan and lease balances (including loans held for sale) for the years ended December 31, 2015 and 2014, respectively. Commercial Banking offers corporate, institutional and not-for-profit clients a full range of wholesale banking products and services including lending and deposits, capital markets, treasury services, foreign exchange and interest hedging, leasing and asset finance, specialty finance and trade finance.

As of December 31, 2015 and 2014, we had $2.3 billion and $3.1 billion, respectively, of non-core asset balances, which were included in Other along with our treasury function, securities portfolio, wholesale funding activities, goodwill, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to the Consumer Banking or Commercial Banking segments. Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. We have actively managed these assets down since they were designated as non-core on June 30, 2009; this portfolio has decreased by an additional 25% as of December 31, 2015 compared to December 31, 2014. The largest component of our non-core portfolio is our home equity products serviced by others (a portion of which we now service internally).

Recent Events

On December 3, 2015, the Company issued $750 million of 4.300% fixed-rate subordinated notes due 2025, and used the proceeds to repurchase $750 million of subordinated debt held by RBS.

On November 23, 2015, The Company announced that the Company had reached agreement with RBS to address RBS's then ownership of $2 billion of the subordinated notes. On December 3, 2015, the Company repurchased $750 million of the subordinated notes held by RBS. In addition, the Company secured the ability through July 2016 to purchase $500 million of our subordinated notes held by RBS, subject to regulatory approval and ratings agency considerations. The remaining $750 million of subordinated notes held by RBS includes $333 million of 5.158% Fixed-to-Floating Callable Notes due 2023 and callable in 2018, $250 million of 4.153% Notes due 2024, and $167 million of 4.023% Notes due 2024.

On November 3, 2015, RBS completed the sale of all of its remaining shares of CFG's common stock. In the registered underwritten public offering, RBS sold 110,461,782 shares, or 20.9% of CFG's outstanding common stock, to the underwriters at a price of $23.38 per share. In connection with completion of the offering, Mr. Robert Gillespie, who served as RBS's board representative, resigned from the CFG Board of Directors, effective November 3, 2015. The CFG Board of Directors appointed Christine Cumming, former First Vice President and Chief Operating Officer for the Federal Reserve Bank of New York, to the board effective as of October 1, 2015.

On August 3, 2015, RBS completed the sale of 98,900,000 shares, or 18.4%, of CFG's outstanding common stock, at a public offering price of $26.00 per share. On the same day, 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 $26.00 per share. Immediately following the completion of this stock repurchase transaction, RBS owned 110,461,782 shares, or 20.9%, of CFG's outstanding common stock.
On April 6, 2015, we completed a private offering of $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 "Preferred Stock"). The net proceeds of the Preferred Stock offering were used to repurchase 10,473,397 shares of our common stock from RBS, at a purchase price equal to the volume-weighted average price of our common stock for all traded volume during the five trading days preceding the repurchase agreement date of April 1, 2015.
On March 30, 2015, RBS completed the sale of 155,250,000 shares, or 28%, of our outstanding common stock at a price to the public of $23.75 per share.

Key Factors Affecting Our Business

Macro-economic conditions

Our business is affected by national and regional economic conditions, as well as the perception of future conditions and economic prospects. The significant macro-economic factors that impact our business include interest rates, the health of the housing market, the rate of the U.S.'s economic expansion, and unemployment levels.

The U.S. economy continued to expand at a moderate pace, with real GDP rising by 2.4% in 2015, following 2.4% growth in 2014. Growth in household spending has declined and the housing sector has slowed as well with the three month average of existing home sales falling to 5.2 million units from 5.5 million units in the previous quarter. Business fixed investment and net exports remained soft.

The labor market continued to improve, with moderate job gains and declining unemployment. The U.S. unemployment rate dropped to 5.0% at December 31, 2015 from 5.6% at December 31, 2014. Average monthly nonfarm employment increased by 228,000 in 2015, after increasing a revised 251,000 in 2014.

The FRB maintained very accommodative monetary policy conditions during 2015, notwithstanding the small 25 bps rate increase in December, and continues to target a 0.25% to 0.50% federal funds rate range at the short end of the yield curve. Interest rates remain relatively low. See "—Interest rates" below for further discussion of the impact of interest rates on our results. Observable inflation levels remain below the FRB's longer-term objective of 2%. Further labor market improvement and the dissipation of the effects of a decline in energy and import prices are expected to bring inflation closer to the FRB's inflation objective.

Credit trends

Credit trends remained favorable in 2015 with a year-over-year reduction in both net charge-offs and nonperforming loans. Net charge-offs in 2015 of $284 million decreased $39 million from $323 million in 2014, driven by favorable credit conditions and higher recoveries. Annualized net charge-offs as a percentage of total average loans improved to 0.30% in 2015, compared to 0.36% in 2014. Asset quality remained strong and within expectations.

Interest rates

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

The cost of our deposits and short-term wholesale borrowings is largely based on short-term interest rates, which are primarily driven by the FRB's actions. However, the yields generated by our loans and securities are typically driven by both short-term and long-term interest rates, which are set by the market or, at times, by the FRB's actions. The level of net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. In 2014 and 2015, short-term and long-term interest rates remained at very low levels by historical standards, with many benchmark rates, such as the federal funds rate and one- and three-month LIBOR, near zero. Further declines in the yield curve or a decline in longer-term yields relative to short-term yields (a flatter yield curve) would have an adverse impact on our net interest margin and net interest income.

In 2014 and 2015, the FRB maintained a highly accommodative monetary policy, and indicated that this policy would remain in effect for a considerable time after its asset purchase program ended on October 29, 2014 and the economic recovery strengthens in the United States. More recently, the FRB has started to move down the path of interest rate normalization by raising the federal funds rate by 25 basis points. However, the FRB will likely continue to target a highly accommodative monetary policy for some time to come. As of December 31, 2015, the FRB had ended its asset purchases of Treasury securities and agency mortgage-backed securities. However, until further notice, the FRB will continue to re-invest run off from its $1.7 trillion mortgage-backed portfolio.

Regulatory trends

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

Dodd-Frank regulation

As described under "Regulation and Supervision" in Part I, Item 1 — Business included elsewhere in this report, we are subject to a variety of laws and regulations, including the Dodd-Frank Act. The Dodd-Frank Act is complex, and many aspects of the Dodd-Frank Act are subject to final rulemaking or phased implementation that will take effect over several years. The Dodd-Frank Act will continue to impact our earnings through fee reductions, higher costs and imposition of new restrictions on us. The Dodd-Frank Act may also continue to have a material adverse impact on the value of certain assets and liabilities held on our balance sheet. The ultimate impact of the Dodd-Frank Act on our business will depend on regulatory interpretation and rulemaking as well as the success of any of our actions to mitigate the negative impacts of certain provisions. Key parts of the Dodd-Frank Act that specifically impact our business are the repeal of a previous prohibition against payment of interest on demand deposits, which became effective in July 2011, and the introduction of a capital planning and stress-testing framework developed by the FRBG, known as CCAR and DFAST. The DFAST process projects net income, loan losses and capital ratios during a nine-quarter horizon under hypothetical, stressful macroeconomic and financial market scenarios developed by the FRBG as well as certain mandated assumptions about capital distributions prescribed in the DFAST rule.

In March and July of 2015 we published estimated impacts of stress, as required by applicable regulation processes, which may be accessed on our regulatory filings and disclosures page on http://investor.citizensbank.com. In 2016, we will publish the disclosure requirements in June and October. Consistent with the purpose of these exercises and the assumptions used to assess our performance during hypothetical economic conditions, the projected results under the required stress scenarios show severe negative impacts on earnings. However, these pro forma results should not be interpreted to be management expectations in light of the current economic and operating environment. During March 2015, the Federal Reserve also published results from the latest supervisory stress tests performed for and by large bank holding companies supervised by the Federal Reserve (See FRB website). In 2016, the Federal Reserve is expected to publish results from the 2016 supervisory stress test performed for and by large bank holding companies supervised by the Federal Reserve in June. These tests are conducted and published by the FRB annually in fulfillment of CCAR and DFAST requirements.

Comprehensive Capital Analysis and Review

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

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

In March 2015, the FRBG assessed our current capital plan as submitted and documented under the CCAR process and raised no objection to the plan. Unless we choose to file an amended capital plan prior to April 2016, the maximum levels at which we may declare dividends and repurchase shares of our common stock through June 30, 2016 are governed by our 2015 capital plan, subject to actual financial performance and ongoing compliance with internal governance and all other regulatory requirements.

For subsequent cycles, beginning in 2016, BHCs will be required to submit their annual capital plans and stress testing results to the Federal Reserve on or before April 5.

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

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

Basel III final rules applicable to us and our banking subsidiaries

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

HELOC payment shock

Attention has been given by regulators, rating agencies, and the general press regarding the potential for increased exposure to credit losses associated with HELOCs that were originated during the period of rapid home price appreciation between 2003 and 2007. Industrywide, many of the HELOCs originated during this timeframe were structured with an extended interest-only payment period followed by a requirement to convert to a higher payment amount that would begin fully amortizing both principal and interest beginning at a certain date in the future. As of December 31, 2015, approximately 29% of our $15.1 billion HELOC portfolio, or $4.4 billion in drawn balances were subject to a payment reset or balloon payment between January 1, 2016 and December 31, 2018, including $80 million in balloon balances where full payment is due at the end of a ten-year interest only draw period.

To help manage this exposure, in September 2013 we launched a comprehensive program designed to provide heightened customer outreach to inform, educate and assist customers through the reset process as well as to offer alternative financing and forbearance options. Results indicate that our efforts to assist customers at risk of default have successfully reduced delinquency and charge-off rates compared to our original expectations.

As of December 31, 2015, for the $1.6 billion of our HELOC portfolio that was originally structured with a reset period in 2013 and 2014, 94% of the balances were refinanced, paid off or were current on payments, 3% were past due and 3% had been charged off. As of December 31, 2015, for the $1.3 billion in balances originally structured with a reset period in 2015, 94% of the balances were refinanced, paid off or were current on payments, 5% were past due and 1% had been charged off. A total of $995 million of these balances are scheduled to reset in 2016. Factors that affect our future expectations for charge-off risk for the portion of our HELOC portfolio subject to reset periods in the future include improved loan-to-value ratios resulting from continued home price appreciation, stable portfolio credit score profiles and more robust loss mitigation efforts.

Factors Affecting Comparability of Our Results

Goodwill

During the 19-year period from 1988 to 2007, we completed a series of more than 25 acquisitions of other financial institutions and financial assets and liabilities. We accounted for these types of business combinations using the purchase method of accounting. Under this accounting method, the acquired company's net assets are recorded at fair value at the date of acquisition, and the difference between the purchase price and the fair value of the net assets acquired is recorded as goodwill.

Under relevant accounting guidance, we are required to review goodwill for impairment annually, or more frequently if events or circumstances indicate that the fair value of any of our business units might be less than its carrying value. The valuation of goodwill is dependent on forward-looking expectations related to the performance of the U.S. economy and our associated financial performance.

The prolonged delay in the full recovery of the U.S. economy, and the impact of that delay on our earnings expectations, prompted us to record a $4.4 billion pre-tax ($4.1 billion after-tax) goodwill impairment as of June 30, 2013 related to our Consumer Banking reporting unit. For segment reporting purposes, the impairment charge is reflected in Other.

Although the U.S. economy had at the time demonstrated signs of recovery, notably improvements in unemployment and housing, the pace and extent of recovery in these indicators, as well as in overall gross domestic product, lagged behind previous expectations. The impact of the slow recovery was most evident in Consumer Banking. The forecasted lower economic growth for the United States, coupled with increasing costs of complying with the new regulatory framework in the financial industry, resulted in a deceleration of expected growth for Consumer Banking's future income, which resulted in our recording of a goodwill impairment charge during the second quarter of 2013.
We have recorded goodwill impairment charges in the past, most recently in 2013, and any further impairment to our goodwill could materially affect our results in any given period. As of December 31, 2015 and 2014, we had a carrying value of goodwill of $6.9 billion. For additional information regarding our goodwill impairment testing, see Note 1 "Significant Accounting Policies" and Note 9 "Goodwill" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Investment in our business

We regularly incur expenses associated with investments in our infrastructure. For example, from 2010 to 2015 we invested $1.6 billion in infrastructure and technology, and plan to invest a total of $245 million in 2016 and about $160 million in 2017. We invested $219 million in our infrastructure in 2015. These investments, which are designed to lower our operating costs and improve our customer experience, include significant programs to enhance our resiliency, upgrade customer-facing technology and streamline operations. Recent significant investments included the 2013 launch of our new teller system, new commercial loan platform and new auto loan platform and the 2013 upgrade of the majority of our ATM network, including equipping more than 1,450 ATMs with advanced deposit-taking functionality as well as additional investment in our Treasury Solutions platform in 2014. In the third quarter of 2015 we enhanced our data resiliency via a new back up data center and began rolling out a new mortgage platform. We expect that these investments will increase our long-term overall efficiency and add to our capacity to increase revenue.

Operating expenses to operate as a fully independent public company

As part of our transition to a fully independent public company, we incurred cumulative one-time expenditures of approximately $52 million through the end of 2015, including capitalized costs of approximately $14 million, as well as ongoing incremental expenses of approximately $34 million per year. These ongoing costs include higher local charges associated with exiting worldwide vendor relationships and incremental expenses to support information technology, compliance, corporate governance, regulatory, financial and risk infrastructure that are necessary to enable us to operate as a fully independent public company.

Principal Components of Operations and Key Performance Metrics Used by Management

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

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

Net interest income

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

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

Noninterest income

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

Total revenue

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

Provision for credit losses

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

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

Noninterest expense

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

Net income (loss)

We evaluate our net income (loss) based on measures including return on average common equity, return on average total assets and return on average tangible common equity.

Loans and leases

We classify our loans and leases pursuant to the following classes: commercial, commercial real estate, leases, residential mortgages, home equity loans, home equity lines of credit, home equity loans serviced by others, home equity lines of credit serviced by others, automobile, student, credit cards and other retail.

Loans are reported at the amount of their outstanding principal, net of charge-offs, unearned income, deferred loan origination fees and costs and unamortized premiums or discounts (on purchased loans). Deferred loan origination fees and costs and purchase discounts and premiums are amortized as an adjustment of yield over the life of the loan, using the level yield interest method. Unamortized amounts remaining upon prepayment or sale are recorded as interest income or gain (loss) on sale, respectively. Credit card receivables include billed and uncollected interest and fees.

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

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

Securities

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

Allowance for credit losses

Our estimate of probable losses in the loan and lease portfolios is recorded in the ALLL and the reserve for unfunded lending commitments. Together these are referred to as the allowance for credit losses. We evaluate the adequacy of the allowance for credit losses using the following ratios: ALLL as a percentage of total loans and leases; ALLL as a percentage of nonperforming loans and leases; and nonperforming loans and leases as a percentage of total loans and leases. For additional information, see "—Critical Accounting Estimates — Allowance for Credit Losses," and Note 1 "Significant Accounting Policies" and Note 5 "Allowance for Credit Losses, Nonperforming Assets and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Deposits

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

Borrowed funds

As of December 31, 2015, our total short-term borrowed funds included federal funds purchased, securities sold under agreement to repurchase, the current portion of FHLB advances and other short-term borrowed funds. As of December 31, 2015, our long-term borrowed funds included subordinated debt, unsecured notes, Federal Home loan advances and other long-term borrowed funds. For additional information, see "—Analysis of Financial Condition — Borrowed Funds," and Note 12 "Borrowed Funds" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Derivatives

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

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

We sell interest rate swaps and foreign exchange forwards to commercial customers. Offsetting swap and forward agreements are simultaneously transacted to minimize our market risk associated with the customer derivative contracts. The assets and liabilities recorded for derivatives not designated as hedges reflect the market value of these transactions. For additional information, see "—Analysis of Financial Condition — Derivatives," and Note 16 "Derivatives" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Key performance metrics and non-GAAP financial measures

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

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

Certain of the above financial measures, including return on average tangible common equity, return on average total tangible assets and the efficiency ratio are not recognized under GAAP. In addition, we present net income (loss), net income (loss) available to common stockholders, and return on average tangible common equity,and efficiency ratio net of goodwill impairment restructuring charges and special items. We believe these non-GAAP measures provide useful information to investors because these are among the measures used by our management team to evaluate our operating performance and make day-to-day operating decisions. In addition, we believe restructuring charges and special items in any period do not reflect the operational performance of the business in that period and, accordingly, it is useful to consider these line items with and without restructuring charges and special items. We believe this

presentation also increases comparability of period-to-period results.
We consider pro forma capital ratios defined by banking regulators but not effective at each period end to be non-GAAP financial measures. As analysts and banking regulators may evaluate our capital adequacy using these pro forma ratios, we believe they are useful to provide investors the ability to evaluate our capital adequacy on the same basis.
Other companies may use similarly titled non-GAAP financial measures that are calculated differently from the way we calculate such measures. Accordingly, our non-GAAP financial measures may not be comparable to similar measures used by other companies. We caution investors not to place undue reliance on such non-GAAP measures, but instead to consider them with the most directly comparable GAAP measure. Non-GAAP financial measures have limitations as analytical tools, and should not be considered in isolation or as a substitute for our results reported under GAAP.

The following table reconciles non-GAAP financial measures to GAAP:

		As of and for the Year Ended December 31,				
(dollars in millions, except per-share amounts)	Ref.	2015	2014	2013	2012	2011
Noninterest expense, excluding goodwill impairment:						
Noninterest expense (GAAP)	A	$3,259	$3,392	$7,679	$3,457	$3,371
Less: Goodwill impairment (GAAP)		—	—	4,435	—	—
Noninterest expense, excluding goodwill impairment (non-GAAP)	B	$3,259	$3,392	$3,244	$3,457	$3,371
Net income (loss), excluding goodwill impairment:						
Net income (loss) (GAAP)	C	$840	$865	($3,426)	$643	$506
Add: Goodwill impairment, net of income tax benefit (GAAP)		—	—	4,080	—	—
Net income (loss), excluding goodwill impairment (non-GAAP)	D	$840	$865	$654	$643	$506
Net income (loss) available to common stockholders, excluding goodwill impairment:						
Net income (loss) available to common stockholders (GAAP)	E	$833	$865	($3,426)	$643	$506
Add: Goodwill impairment, net of income tax benefit (GAAP)		—	—	4,080	—	—
Net income (loss) available to common stockholders, excluding goodwill impairment (non-GAAP)	F	$833	$865	$654	$643	$506
Return on average common equity, excluding goodwill impairment:						
Average common equity (GAAP)	G	$19,354	$19,399	$21,834	$23,938	$23,137
Return on average common equity, excluding goodwill impairment (non-GAAP)	F/G	4.30%	4.46%	3.00%	2.69%	2.19%
Return on average tangible common equity, excluding goodwill impairment:						
Average common equity (GAAP)		$19,354	$19,399	$21,834	$23,938	$23,137
Less: Average goodwill (GAAP)		6,876	6,876	9,063	11,311	11,311
Less: Average other intangibles (GAAP)		4	7	9	12	15
Add: Average deferred tax liabilities related to goodwill (GAAP)		445	377	459	617	295
Average tangible common equity (non-GAAP)	H	$12,919	$12,893	$13,221	$13,232	$12,106
	E/H	6.45%	6.71%	(25.91)%	4.86%	4.18%

Return on average tangible common equity (non-GAAP)											
Return on average tangible common equity, excluding goodwill impairment (non-GAAP)	F/H	6.45	%	6.71	%	4.95	%	4.86	%	4.18	%
Return on average total assets, excluding goodwill impairment:											
Average total assets (GAAP)	I	$135,070		$127,624		$120,866		$127,666		$128,344	
Return on average total assets, excluding goodwill impairment (non-GAAP)	D/I	0.62	%	0.68	%	0.54	%	0.50	%	0.39	%
Return on average total tangible assets, excluding goodwill impairment:											
Average total assets (GAAP)	I	$135,070		$127,624		$120,866		$127,666		$128,344	
Less: Average goodwill (GAAP)		6,876		6,876		9,063		11,311		11,311	
Less: Average other intangibles (GAAP)		4		7		9		12		15	
Add: Average deferred tax liabilities related to goodwill (GAAP)		445		377		459		617		295	
Average tangible assets (non-GAAP)	J	$128,635		$121,118		$112,253		$116,960		$117,313	
Return on average total tangible assets (non-GAAP)	C/J	0.65	%	0.71	%	(3.05	)%	0.55	%	0.43	%
Return on average total tangible assets, excluding goodwill impairment (non-GAAP)	D/J	0.65	%	0.71	%	0.58	%	0.55	%	0.43	%

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		As of and for the Year Ended December 31,				
(dollars in millions, except per-share amounts)	Ref.	2015	2014	2013	2012	2011
Efficiency ratio, excluding goodwill impairment:						
Noninterest expense (GAAP)	A	$3,259	$3,392	$7,679	$3,457	$3,371
Net interest income (GAAP)		$3,402	$3,301	$3,058	$3,227	$3,320
Noninterest income (GAAP)		1,422	1,678	1,632	1,667	1,711
Total revenue (GAAP)	K	$4,824	$4,979	$4,690	$4,894	$5,031
Efficiency ratio (non-GAAP)	A/K	67.56 %	68.12 %	163.73 %	70.64 %	67.00 %
Efficiency ratio, excluding goodwill impairment (non-GAAP)	B/K	67.56 %	68.12 %	69.17 %	70.64 %	67.00 %
Net income (loss) per average common share-basic and diluted, excluding goodwill impairment:						
Average common shares outstanding - basic (GAAP)	L	535,599,731	556,674,146	559,998,324	559,998,324	559,998,324
Average common shares outstanding - diluted (GAAP)	M	538,220,898	557,724,936	559,998,324	559,998,324	559,998,324
Net income (loss) (GAAP)	E	$833	$865	($3,426)	$643	$506
Add: Goodwill impairment, net of income tax benefit (GAAP)		—	—	4,080	—	—
Net income (loss), excluding goodwill impairment (non-GAAP)	F	$833	$865	$654	$643	$506
Net income (loss) per average common share-basic, excluding goodwill impairment (non-GAAP)	F/L	1.55	1.55	1.17	1.15	0.90
Net income (loss) per average common share-diluted, excluding goodwill impairment (non-GAAP)	F/M	1.55	1.55	1.17	1.15	0.90

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		Year Ended December 31,		
(dollars in millions)	Ref.	2015	2014	2013
Total revenue, excluding special items:				
Total revenue (GAAP)	K	$4,824	$4,979	$4,690
Less: Special items - Gain on Chicago Divestiture		—	288	—
Total revenue, excluding special items (non-GAAP)	N	$4,824	$4,691	$4,690
Noninterest expense excluding goodwill impairment, restructuring charges and special items:				
Noninterest expense (GAAP)	A	$3,259	$3,392	$7,679
Less: Goodwill impairment (GAAP)		—	—	4,435
Less: Restructuring charges (GAAP)		26	114	26
Less: Special items (1)		24	55	—
Noninterest expense, excluding goodwill impairment, restructuring charges and special items (non-GAAP)	O	$3,209	$3,223	$3,218
Efficiency ratio, excluding goodwill impairment, restructuring charges and special items (non-GAAP)	O/N	66.52 %	68.70 %	68.61 %
Net income, excluding goodwill impairment, restructuring charges and special items:				
Net income (loss) (GAAP)	C	$840	$865	($3,426)
Add: Goodwill impairment (GAAP)		—	—	4,080
Add: Restructuring charges (GAAP)		16	72	17
Special items:				
Less: Net gain on the Chicago Divestiture (GAAP)		—	180	—
Add: Regulatory charges (GAAP)		1	22	—
Add: Separation expenses / IPO related (GAAP)		14	11	—
Net income, excluding goodwill impairment, restructuring charges and special items (non-GAAP)		$871	$790	$671
Net income (loss) available to common stockholders, excluding goodwill impairment, restructuring charges and special items:				
Net income (loss) available to common stockholders (GAAP)	E	$833	$865	($3,426)
Add: Goodwill impairment (GAAP)		—	—	4,080
Add: Restructuring charges (GAAP)		16	72	17
Special items:				
Less: Net gain on the Chicago Divestiture (GAAP)		—	180	—
Add: Regulatory charges (GAAP)		1	22	—
Add: Separation expenses / IPO related (GAAP)		14	11	—
Net income available to common shareholders, excluding goodwill impairment, restructuring charges and special items (non-GAAP)	P	$864	$790	$671
Return on average tangible common equity, excluding goodwill impairment, restructuring charges and special items:				
Average common equity (GAAP)	G	$19,354	$19,399	$21,834
Less: Average goodwill (GAAP)		6,876	6,876	9,063

Less: Average other intangibles (GAAP)		4		7		9	
Add: Average deferred tax liabilities related to goodwill (GAAP)		445		377		459	
Average tangible common equity (non-GAAP)	H	$12,919		$12,893		$13,221	
Return on average tangible common equity (non-GAAP)	E/H	6.45	%	6.71	%	(25.91	%)
Return on average tangible common equity, excluding goodwill impairment, restructuring charges and special items (non-GAAP)	P/H	6.69	%	6.13	%	5.08	%

(1) Special items include the following: regulatory charges, separation items and IPO related expenses.

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		As of and for the Year Ended December31,									
		2015				2014				2013	
(dollars in millions)	Ref.	Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Commercial Banking	Other	Consolidated	Consumer Banking	Comm Bankin
Net income (loss), excluding goodwill impairment:											
Net income (loss) (GAAP)	Q	$262	$579	($1)	$840	$182	$561	$122	$865	$242	$514
Add: Goodwill impairment, net of income tax benefit (GAAP)		—	—	—	—	—	—	—	—	—	—
Net income (loss), excluding goodwill impairment (non-GAAP)	R	$262	$579	($1)	$840	$182	$561	$122	$865	$242	$514
Net income (loss) available to common stockholders, excluding goodwill impairment:											
Net income (loss) (GAAP)	Q	$262	$579	($1)	$840	$182	$561	$122	$865	$242	$514
Less: Preferred stock dividends		—	—	7	7	—	—	—	—	—	—
Net income (loss) available to common stockholders (GAAP)	S	$262	$579	($8)	$833	$182	$561	$122	$865	$242	$514
Add: Goodwill impairment, net of income tax benefit (GAAP)		—	—	—	—	—	—	—	—	—	—
Net income available to common stockholders, excluding goodwill impairment (non-GAAP)	T	$262	$579	($8)	$833	$182	$561	$122	$865	$242	$514
Efficiency ratio:											
Total revenue (GAAP)	U	$3,108	$1,577	$139	$4,824	$3,050	$1,502	$427	$4,979	$3,201	$1,42
Noninterest expense	V	$2,456	$709	$94	$3,259	$2,513	$652	$227	$3,392	$2,522	$635

(GAAP)											
Less: Goodwill impairment (GAAP)		$—	$—	$—	$—	$—	$—	$—	$—	$—	$—
Noninterest expense, excluding goodwill impairment (non- GAAP)	W	$2,456	$709	$94	$3,259	$2,513	$652	$227	$3,392	$2,522	$635
Efficiency ratio (non-GAAP)	V/U	79.02%	44.94%	NM	67.56%	82.39%	43.30%	NM	68.12%	78.76%	44.66
Efficiency ratio, excluding goodwill impairment (non-GAAP)	W/U	79.02%	44.94%	NM	67.56%	82.39%	43.30%	NM	68.12%	78.76%	44.66
Return on average total tangible assets:											
Average total assets (GAAP)		$52,848	$42,800	$39,422	$135,070	$48,939	$38,483	$40,202	$127,624	$46,465	$35,22
Less: Average goodwill (GAAP)		—	—	6,876	6,876	—	—	6,876	6,876	—	—
Less: Average other intangibles (GAAP)		—	—	4	4	—	—	7	7	—	—
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	445	445	—	—	377	377	—	—
Average total tangible assets (non-GAAP)	X	$52,848	$42,800	$32,987	$128,635	$48,939	$38,483	$33,696	$121,118	$46,465	$35,22
Return on average total tangible assets (non-GAAP)	Q/X	0.50%	1.35%	NM	0.65%	0.37%	1.46%	NM	0.71%	0.52%	1.46
Return on average total tangible assets, excluding goodwill impairment (non-GAAP)	R/X	0.50%	1.35%	NM	0.65%	0.37%	1.46%	NM	0.71%	0.52%	1.46
Return on average tangible common equity:											
Average common equity (GAAP)(2)		$4,739	$4,666	$9,949	$19,354	$4,665	$4,174	$10,560	$19,399	$4,395	$3,897
Less: Average goodwill		—	—	6,876	6,876	—	—	6,876	6,876	—	—

(GAAP)											
Less: Average other intangibles (GAAP)		—	—	4	4	—	—	7	7	—	—
Add: Average deferred tax liabilities related to goodwill (GAAP)		—	—	445	445	—	—	377	377	—	—
Average tangible common equity (non-GAAP)(2)	Y	$4,739	$4,666	$3,514	$12,919	$4,665	$4,174	$4,054	$12,893	$4,395	$3,897
Return on average tangible common equity (non-GAAP)[2]	S/Y	5.53 %	12.41 %	NM	6.45 %	3.90 %	13.43 %	NM	6.71 %	5.48 %	13.20
Return on average tangible common equity, excluding goodwill impairment (non-GAAP)[2]	T/Y	5.53 %	12.41 %	NM	6.45 %	3.90 %	13.43 %	NM	6.71 %	5.48 %	13.20

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

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

Highlights

For the year ended December 31, 2015:

- Net income of $840 million decreased $25 million, compared to $865 million in 2014;
- Net income included $31 million in after-tax restructuring charges and special noninterest expense items, compared with a net $180 million after-tax gain related to the Chicago Divestiture and $105 million after-tax in restructuring charges and special noninterest expense items in 2014. Excluding the restructuring charges and special items, net income increased $81 million, or 10%, to $871 million,[1] from $790 million[1] in 2014;
- Net income available to common stockholders of $833 million decreased $32 million, compared to $865 million in 2014. Excluding the impact of the Chicago Divestiture gain, restructuring charges and special items net income available to common stockholders of $864 million[1] increased $74 million, or 9%, from 2014.
- Net interest income of $3.4 billion increased $101 million, or 3%, from $3.3 billion in 2014, as the benefit of earning asset growth and a reduction in pay-fixed swap costs was partially offset by continued pressure from the relatively persistent low-rate environment on loan yields and mix, the effect of the Chicago Divestiture, higher borrowing costs related to debt issuances, and higher deposit costs;
- Net interest margin of 2.75% decreased 8 basis points, compared to 2.83% in 2014, given the impact of the continued low-rate environment on loan yields and mix, higher borrowing costs related to the issuance of subordinated debt and senior notes, higher deposit costs and the impact of the Chicago Divestiture;
- Noninterest income of $1.4 billion decreased $256 million, or 15%, compared to $1.7 billion in 2014, which included a $288 million pre-tax gain related to the Chicago Divestiture. Excluding the Chicago Divestiture gain, noninterest income increased $32 million, or 2%, as higher mortgage banking fees, bank-owned life insurance income, other income, and service charges and fees were partially offset by lower foreign exchange and trade finance fees, capital markets fees, trust and investment services fees and card fees;
- Noninterest expense of $3.3 billion was down $133 million, or 4%, compared to $3.4 billion in 2014 driven by a $119 million decrease in restructuring charges and special items, and the impact of the Chicago Divestiture as investments to drive future growth were offset by the benefit of efficiency initiatives;
- Provision for credit losses totaled $302 million, down $17 million, or 5%, from $319 million in 2014, reflecting continued improvement in credit quality. Results in 2015 included a net provision build of $18 million compared with a net $4 million release in 2014;
- Return on average tangible common equity ratio of 6.45%[1] compared to 6.71%[1] for 2014. Excluding the impact of restructuring charges and special items mentioned above, our return on average tangible common equity improved to 6.69%[1] from 6.13%[1] in 2014;
- Average loans and leases of $96.2 billion increased $7.1 billion, or 8%, from $89.0 billion in 2014, driven by commercial loan growth and growth in auto, residential mortgage, and student loans, partially offset by a decrease in home equity balances and a reduction in the non-core loan portfolio;
- Average interest-bearing deposits of $72.5 billion increased $8.1 billion, or 13%, from $64.4 billion (excluding deposits held for sale) in 2014, driven by growth in all deposit products;
- Net charge-offs of $284 million decreased $39 million, or 12%, from $323 million in 2014 reflecting continued improvement in credit quality. The ALLL of $1.2 billion increased $21 million compared to year end 2014. ALLL to total loans and leases was 1.23% as of December 31, 2015, compared with 1.28% as of December 31, 2014. ALLL to non-performing loans and leases ratio was 115% as of December 31, 2015, compared with 109% as of December 31, 2014; and
- Net income per average common share, basic and diluted, was $1.55 for 2015, which was unchanged from 2014 due to the impact on 2015 earnings per share of a $7 million preferred stock dividend.

(1) These measures are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see "—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures."

Net Income

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

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

	Year Ended December 31,			
(dollars in millions)	2015	2014	Change	Percent
Operating Data:				
Net interest income	$3,402	$3,301	$101	3%
Noninterest income	1,422	1,678	(256)	(15)
Total revenue	4,824	4,979	(155)	(3)
Total revenue, excluding special items [1]	4,824	4,691	133	3
Provision for credit losses	302	319	(17)	(5)
Noninterest expense	3,259	3,392	(133)	(4)
Noninterest expense, excluding restructuring charges and special items [1]	3,209	3,223	(14)	—
Income before income tax expense	1,263	1,268	(5)	—
Income tax expense	423	403	20	5
Net income	840	865	(25)	(3)
Net income, excluding restructuring charges and special items [1]	871	790	81	10
Net income available to common stockholders	833	865	(32)	(4)
Net income available to common stockholders, excluding restructuring charges and special items [1]	864	790	74	9
Return on average tangible common equity [1]	6.45%	6.71%	(26) bps	—
Return on average tangible common equity, excluding restructuring charges and special items [1]	6.69%	6.13%	56 bps	—

[1] These are non-GAAP financial measures. For more information on the computation of this non-GAAP financial measure, see "—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures."

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Net Interest Income

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

	Year Ended December 31,							
	2015			2014			Change	
(dollars in millions)	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Yields/ Rates
Assets								
Interest-bearing cash and due from banks and deposits in banks	$1,746	$5	0.29 %	$2,113	$5	0.22 %	($367)	7 bps
Taxable investment securities	24,649	621	2.52	24,319	619	2.55	330	(3)
Non-taxable investment securities	9	—	2.60	11	—	2.60	(2)	—
Total investment securities	24,658	621	2.52	24,330	619	2.55	328	(3)
Commercial	32,673	951	2.87	29,993	900	2.96	2,680	(9)
Commercial real estate	8,231	211	2.53	7,158	183	2.52	1,073	1
Leases	3,902	97	2.50	3,776	103	2.73	126	(23)
Total commercial	44,806	1,259	2.78	40,927	1,186	2.86	3,879	(8)
Residential mortgages	12,338	465	3.77	10,729	425	3.96	1,609	(19)
Home equity loans	3,025	163	5.38	3,877	205	5.29	(852)	9
Home equity lines of credit	14,958	441	2.95	15,552	450	2.89	(594)	6
Home equity loans serviced by others (1)	1,117	77	6.94	1,352	91	6.75	(235)	19
Home equity lines of credit serviced by others (1)	453	11	2.44	609	16	2.68	(156)	(24)
Automobile	13,516	372	2.75	11,011	282	2.57	2,505	18
Student	3,313	167	5.03	2,148	102	4.74	1,165	29
Credit cards	1,621	178	10.97	1,651	167	10.14	(30)	83
Other retail	1,003	78	7.75	1,186	88	7.43	(183)	32
Total retail	51,344	1,952	3.80	48,115	1,826	3.80	3,229	—
Total loans and leases	96,150	3,211	3.32	89,042	3,012	3.37	7,108	(5)
Loans held for sale, at fair value	301	10	3.47	163	5	3.10	138	37
Other loans held for sale	95	7	7.22	539	23	4.17	(444)	305
Interest-earning assets	122,950	3,854	3.12	116,187	3,664	3.14	6,763	(2)
Allowance for loan and lease losses	(1,196)			(1,230)			34	
Goodwill	6,876			6,876			—	
Other noninterest-earning assets	6,440			5,791			649	
Total noninterest-earning assets	12,120			11,437			683	
Total assets	$135,070			$127,624			$7,446	
Liabilities and Stockholders' Equity								
Checking with interest	$16,666	$19	0.11 %	$14,507	$12	0.08 %	$2,159	3 bps
Money market and savings	43,458	117	0.27	39,579	77	0.19	3,879	8
Term deposits	12,424	101	0.82	10,317	67	0.65	2,107	17
Total interest-bearing deposits	72,548	237	0.33	64,403	156	0.24	8,145	9
Interest-bearing deposits held for sale	—	—	—	1,960	4	0.22	(1,960)	(22)
Federal funds purchased and securities sold under agreements to repurchase (2)	3,364	16	0.46	5,699	32	0.55	(2,335)	(9)

Other short-term borrowed funds	5,865	67	1.13		5,640	89	1.56		225	(43)	
Long-term borrowed funds	4,479	132	2.95		1,907	82	4.25		2,572	(130)	
Total borrowed funds	13,708	215	1.56		13,246	203	1.51		462	5	
Total interest-bearing liabilities	86,256	452	0.52		79,609	363	0.45		6,647	7	
Demand deposits	26,606				25,739				867		
Demand deposits held for sale	—				462				(462	)	
Other liabilities	2,671				2,415				256		
Total liabilities	115,533				108,225				7,308		
Stockholders' equity	19,537				19,399				138		
Total liabilities and stockholders' equity	$135,070				$127,624				$7,446		
Interest rate spread			2.60				2.69			(9)	
Net interest income		$3,402				$3,301					
Net interest margin			2.75	%			2.83	%		(8)bps	
Memo: Total deposits (interest-bearing and demand)	$99,154	$237	0.24	%	$92,564	$160	0.17	%	$6,590	7 bps	

(1) Our SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. We now service a portion of this portfolio internally.

(2) Balances are net of certain short-term receivables associated with reverse repurchase agreements. Interest expense includes the full cost of the repurchase agreements and certain hedging costs. The rate on federal funds purchased is elevated due to the impact from pay-fixed interest rate swaps that are scheduled to run off by the end of 2016. See "—Analysis of Financial Condition — December 31, 2015 Compared with December 31, 2014 — Derivatives" for further information.

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

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

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

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

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

Noninterest Income

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

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

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

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

Provision for Credit Losses

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

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

Noninterest Expense

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

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

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

Provision for Income Taxes

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

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

Business Segments

We operate our business through two operating segments: Consumer Banking and Commercial Banking. Segment results are derived from our business-line profitability reporting systems by specifically attributing managed assets, liabilities, capital and their related revenues, provision for credit losses and expenses. Residual assets, liabilities, capital and their related revenues, provision for credit losses and expenses are attributed to Other.

Other includes our treasury function, securities portfolio, wholesale funding activities, goodwill and goodwill impairment, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to Consumer Banking or Commercial Banking. Other also includes our non-core assets. Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. The non-core portfolio totaled $2.3 billion as of December 31, 2015, down 25% from December 31, 2014. The largest component of our non-core portfolio is our home equity products currently or formerly serviced by others portfolio.

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

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

[1] Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see "—Analysis of Financial Condition — December 31, 2015 Compared with December 31, 2014 — Loans and Leases-Non-Core Assets."

[2] These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see "—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures."

[3] Ratios include loans and leases held for sale.

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

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

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

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

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

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

Consumer Banking

	As of and for the Year Ended December 31,			
(dollars in millions)	2015	2014	Change	Percent
Net interest income	$2,198	$2,151	$47	2%
Noninterest income	910	899	11	1
Total revenue	3,108	3,050	58	2
Noninterest expense	2,456	2,513	(57)	(2)
Profit before provision for credit losses	652	537	115	21
Provision for credit losses	252	259	(7)	(3)
Income before income tax expense	400	278	122	44
Income tax expense	138	96	42	44
Net income	$262	$182	$80	44
Loans and leases and loans held for sale (year-end)	$53,344	$49,919	$3,425	7
Average Balances:				
Total assets	$52,848	$48,939	$3,909	8
Loans and leases and loans held for sale [(1)]	51,484	47,745	3,739	8
Deposits and deposits held for sale [(2)]	69,748	68,214	1,534	2
Interest-earning assets	51,525	47,777	3,748	8%
Key Metrics				
Net interest margin	4.27%	4.50%	(23) bps	—
Efficiency ratio [(3)]	79.02	82.39	(337) bps	—
Average loans to average deposits ratio [(4)]	73.81	69.99	382 bps	—
Return on average total tangible assets [(3)]	0.50	0.37	13 bps	—
Return on average tangible common equity [(3)] [(5)]	5.53	3.90	163 bps	—

(1) Average loans held for sale for the year ended December 31, 2014 include loans relating to the Chicago Divestiture.

(2) Average deposits held for sale for the year ended December 31, 2014 include deposits relating to the Chicago Divestiture.

(3) These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see "—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures."

(4) Ratios include both loans and leases held for sale and deposits held for sale.

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

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

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

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

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

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

Commercial Banking

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

(1) Average loans held for sale for the year ended December 31, 2014 include loans relating to the Chicago Divestiture.

(2) Average deposits held for sale for the year ended December 31, 2014 include deposits relating to the Chicago Divestiture.

(3) These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see "—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures."

(4) Ratios include both loans and leases held for sale and deposits held for sale.

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

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

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

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

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

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

Other

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

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

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

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

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

The provision for credit losses in 2015 decreased $3 million to $63 million compared to $66 million in 2014, reflecting stable credit quality and a decrease in non-core net charge-offs of $23 million to $44 million in 2015 compared to $67 million in 2014. On a quarterly basis, we review and refine our estimate of the allowance for credit losses, taking into consideration changes in portfolio size and composition, historical loss experience, internal risk ratings, current economic conditions, industry-performance trends and other pertinent information. The provision also reflected an increase in overall credit exposure associated with growth in our loan portfolio.

Total assets as of December 31, 2015 included $2.1 billion and $4.7 billion of goodwill related to the Consumer Banking and Commercial Banking reporting units, respectively. For further information regarding the reconciliation of segment results to GAAP results, see Note 24 "Business Segments" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Results of Operations — Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Highlights

For the year ended December 31, 2014:

- Net income of $865 million increased $4.3 billion compared to a loss of $3.4 billion in 2013;
- Net income included a net $180 million after-tax gain related to the Chicago Divestiture and $105 million after-tax restructuring charges and special noninterest expense items largely related to our separation from RBS and ongoing efforts to improve processes and enhance efficiencies across the organization. 2013 included an after-tax goodwill impairment charge of $4.1 billion. Excluding the Chicago gain, restructuring charges and special items and the goodwill impairment charge, net income increased $119 million, or 18%, to $790 million(1), from $671 million(1) in 2013;
- Net interest income of $3.3 billion increased $243 million, or 8%, from $3.1 billion in 2013, largely reflecting growth in investment securities and loan portfolios, and a reduction in pay-fixed swap costs and deposit costs as we continued to reduce our reliance on higher cost certificate of deposit and money market deposits. These results were partially offset by the impact of declining loan yields given the relatively persistent low-rate environment and higher long-term borrowing costs;
- Net interest margin of 2.83%, compared to 2.85% in 2013, remained relatively stable as the impact of continued pressure on commercial and retail loan yields and higher long-term borrowing costs were partially offset by a reduction in pay-fixed swap costs and deposit costs;
- Noninterest income of $1.7 billion included a $288 million pre-tax gain on the Chicago Divestiture, and increased $46 million, or 3%, to $1.7 billion, compared to $1.6 billion in 2013. Excluding the gain, noninterest income decreased $242 million, or 15%, driven by the effect of a $116 million reduction in net securities gains, lower mortgage banking fees, and lower service charges and fees, which were partially offset by growth in trust and investment services fees and capital markets fees;
- Noninterest expense of $3.4 billion decreased $4.3 billion, or 56%, compared to $7.7 billion in 2013, which included a pre-tax $4.4 billion goodwill impairment charge. Results in 2014 included $169 million in pre-tax restructuring charges and special items compared with $26 million in 2013. Excluding the goodwill impairment and restructuring charges and special items, noninterest expense remained relatively stable;
- Provision for credit losses totaled $319 million and decreased $160 million, or 33%, from $479 million in 2013. Results in 2014 included a net provision release of $4 million compared with a $22 million release in 2013;
- Our return on average tangible common equity ratio improved to 6.71%(1), from (25.91%)(1) in 2013. Excluding the impact of the goodwill impairment, restructuring charges and special items mentioned above, our return on average tangible common equity improved to 6.13%(1) from 5.08%(1) in 2013;
- Average loans and leases of $89.0 billion increased $3.6 billion, or 4%, from $85.4 billion in 2013, due to growth in commercial loans, residential mortgages and auto loans, which more than offset the reduction in home equity loans and lines of credit;
- Average interest-bearing deposits of $64.4 billion decreased $3.5 billion, or 5%, from $67.9 billion in 2013, primarily driven by a $2.0 billion decrease associated with the Chicago Divestiture as well as a reduction of higher cost money market and term deposits; and
- Net income per average common share, basic and diluted, was $1.55 in 2014, compared to a loss of $6.12 in 2013, which included a goodwill impairment charge of $7.29 per share.

(1) These measures are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see "—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures."

Net Income (Loss)

Net income totaled $865 million in 2014, and included $75 million of after-tax net restructuring charges and special items related to our separation from RBS, efforts to improve processes and enhance efficiencies across the organization, and the Chicago Divestiture. These results increased $4.3 billion from 2013, which included a $4.1 billion after-tax goodwill impairment charge. Excluding the gain, restructuring charges and special items and impairment charge noted above, 2014 net income increased $119 million, or 18%, from 2013, as the benefit of lower provision for credit losses and higher net interest income was partially offset by the effect of lower noninterest income and increased noninterest expense.

The special items and restructuring charges in 2014 included a $288 million pre-tax gain ($180 million after tax) on the sale of the Chicago-area deposits, $17 million of pre-tax expenses ($11 million after tax) related to the Chicago Divestiture, $97 million of pre-tax expenses ($61 million after tax), related to our efficiency initiatives, $20 million of pre-tax expenses ($11 million after tax) related to our separation from RBS, and $35 million of other pre-tax expenses ($22 million after tax) related to regulatory initiatives. The restructuring charges in 2013 related to our implementation of a new branch image capture system on the teller line which automated several key processes within the branch network, and our decision to close certain branches, which resulted in lease termination costs and other fixed asset write-offs.

The following table details the significant components of our net income (loss) for the periods indicated:

	Year Ended December 31,			
(dollars in millions)	2014	2013	Change	Percent
Operating Data:				
Net interest income	$3,301	$3,058	$243	8 %
Noninterest income	1,678	1,632	46	3
Total revenue	4,979	4,690	289	6
Total revenue, excluding special items (1)	4,691	4,690	1	—
Provision for credit losses	319	479	(160)	(33)
Noninterest expense	3,392	7,679	(4,287)	(56)
Noninterest expense, excluding goodwill impairment (1)	3,392	3,244	148	5
Noninterest expense, excluding goodwill impairment, restructuring charges and special items (1)	3,223	3,218	5	—
Income (loss) before income tax expense (benefit)	1,268	(3,468)	4,736	137
Income tax expense (benefit)	403	(42)	445	1,060
Net income (loss)	865	(3,426)	4,291	125
Net income, excluding goodwill impairment (1)	865	654	211	32
Net income, excluding goodwill impairment, restructuring charges and special items(1)	790	671	119	18
Return on average tangible common equity (1)	6.71 %	(25.91 %)	NM	—
Return on average tangible common equity, excluding goodwill impairment (1)	6.71 %	4.95 %	176 bps	—
Return on average tangible common equity, excluding goodwill impairment, restructuring charges and special items (1)	6.13 %	5.08 %	105 bps	—

(1) These are non-GAAP financial measures. For more information on the computation of this non-GAAP financial measure, see "—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures."

Net Interest Income

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

	Year Ended December 31,						Change	
	2014			2013				
(dollars in millions)	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Yields/ Rates
Assets								
Interest-bearing cash and due from banks and deposits in banks	$2,113	$5	0.22 %	$2,278	$11	0.46 %	($165)	(24) bps
Taxable investment securities	24,319	619	2.55	19,062	477	2.50	5,257	5
Non-taxable investment securities	11	—	2.60	12	—	2.66	(1)	(6)
Total investment securities	24,330	619	2.55	19,074	477	2.50	5,256	5
Commercial	29,993	900	2.96	28,654	900	3.10	1,339	(14)
Commercial real estate	7,158	183	2.52	6,568	178	2.67	590	(15)
Leases	3,776	103	2.73	3,463	105	3.05	313	(32)
Total commercial	40,927	1,186	2.86	38,685	1,183	3.02	2,242	(16)
Residential mortgages	10,729	425	3.96	9,104	360	3.96	1,625	—
Home equity loans	3,877	205	5.29	4,606	246	5.35	(729)	(6)
Home equity lines of credit	15,552	450	2.89	16,337	463	2.83	(785)	6
Home equity loans serviced by others (1)	1,352	91	6.75	1,724	115	6.65	(372)	10
Home equity lines of credit serviced by others (1)	609	16	2.68	768	22	2.88	(159)	(20)
Automobile	11,011	282	2.57	8,857	235	2.65	2,154	(8)
Student	2,148	102	4.74	2,202	95	4.30	(54)	44
Credit cards	1,651	167	10.14	1,669	175	10.46	(18)	(32)
Other retail	1,186	88	7.43	1,453	107	7.36	(267)	7
Total retail	48,115	1,826	3.80	46,720	1,818	3.89	1,395	(9)
Total loans and leases	89,042	3,012	3.37	85,405	3,001	3.50	3,637	(13)
Loans held for sale, at fair value	163	5	3.10	392	12	3.07	(229)	3
Other loans held for sale	539	23	4.17	—	—	—	539	NM
Interest-earning assets	116,187	3,664	3.14	107,149	3,501	3.25	9,038	(11)
Allowance for loan and lease losses	(1,230)			(1,219)			(11)	
Goodwill	6,876			9,063			(2,187)	
Other noninterest-earning assets	5,791			5,873			(82)	
Total noninterest-earning assets	11,437			13,717			(2,280)	
Total assets	$127,624			$120,866			$6,758	
Liabilities and Stockholders' Equity								
Checking with interest	$14,507	$12	0.08 %	$14,096	$8	0.06 %	$411	2 bps
Money market and savings	39,579	77	0.19	42,575	105	0.25	(2,996)	(6)
Term deposits	10,317	67	0.65	11,266	103	0.91	(949)	(26)
Total interest-bearing deposits	64,403	156	0.24	67,937	216	0.32	(3,534)	(8)
Interest-bearing deposits held for sale	1,960	4	0.22	—	—	—	1,960	22
Federal funds purchased and securities sold under agreements to	5,699	32	0.55	2,400	192	7.89	3,299	NM

repurchase [2]										
Other short-term borrowed funds	5,640	89	1.56		251	4	1.64		5,389	(8)
Long-term borrowed funds	1,907	82	4.25		778	31	3.93		1,129	32
Total borrowed funds	13,246	203	1.51		3,429	227	6.53		9,817	NM
Total interest-bearing liabilities	79,609	363	0.45		71,366	443	0.61		8,243	(16)
Demand deposits	25,739				25,399				340	
Demand deposits held for sale	462				—				462	
Other liabilities	2,415				2,267				148	
Total liabilities	108,225				99,032				9,193	
Stockholders' equity	19,399				21,834				(2,435)	
Total liabilities and stockholders' equity	$127,624				$120,866				$6,758	
Interest rate spread			2.69				2.64			5
Net interest income		$3,301				$3,058				
Net interest margin			2.83	%			2.85	%		(2) bps
Memo: Total deposits (interest-bearing and demand)	$92,564	$160	0.17	%	$93,336	$216	0.23	%	($772)	(6) bps

(1) Our SBO portfolio consists of home equity loans and lines that were originally serviced by others. We now service a portion of this portfolio internally.
(2) Balances are net of certain short-term receivables associated with reverse repurchase agreements. Interest expense includes the full cost of the repurchase agreements and certain hedging costs. The rate on federal funds purchased is elevated due to the impact from pay-fixed interest rate swaps that are scheduled to run off by the end of 2015. See "—Analysis of Financial Condition — December 31, 2015 Compared with December 31, 2014 — Derivatives" for further information.

Net interest income of $3.3 billion in 2014 increased $243 million, or 8%, from $3.1 billion in 2013 driven by growth in average interest-earning assets, a reduction in interest rate hedging costs, as well as lower deposit costs. These benefits were partially offset by the effect of declining loan yields and a continued shift in loan mix to lower yielding loans, increased borrowing costs related to our issuance of subordinated debt and the effect of the Chicago Divestiture. Average interest-earning assets of $116.2 billion in 2014 increased $9.0 billion from 2013 driven by a $5.3 billion increase in the investment securities portfolio, a $2.2 billion increase in commercial loans, a $1.6 billion increase in residential mortgages, and a $2.2 billion increase in automobile loans, partially offset by a $2.0 billion decrease in home equity outstandings, a $54 million reduction in student loans, and a $267 million decrease in other retail loans. 2014 net interest margin of 2.83% remained broadly stable compared to 2.85% in 2013 despite continued pressure from the relatively persistent low interest-rate environment. Average interest-earning asset yields continued to decline at a pace that exceeded our ability to reduce our cost of interest-bearing deposits. 2014 average interest-earning asset yields of 3.14% declined 11 basis points from 3.25% in 2013, largely reflecting a 13 basis point decline in the loan and lease portfolio yield despite a five basis point improvement in the securities portfolio yield. The decline in loan and lease yields was driven by the effect of a reduction in higher-yielding consumer real estate secured outstandings. In addition, intense industry-wide competition for commercial loans continued to compress spreads on new originations and resulted in additional downward pressure on overall loan yields. Investment portfolio income of $619 million for the year ended December 31, 2014 increased $142 million, or 30%, compared to the year ended December 31, 2013.

Total interest-bearing deposit costs of $156 million in 2014 decreased $60 million, or 28%, from $216 million in 2013 and reflected an eight basis point decrease in the rate paid on deposits to 0.24% from 0.32%. The cost of term deposits decreased to 0.65% in 2014 from 0.91% in 2013, while rates on money market and savings declined to 0.19% in 2014 from 0.25% in 2013. Due to the historically low interest rate environment, many deposit products have hit pricing floors at or near zero, limiting further rate reduction and thus compressing margins.

The total borrowed funds costs of $203 million in 2014 declined $24 million, or 11%, from $227 million in 2013 driven by the benefit of a $101 million reduction in pay-fixed swap costs which was partially offset by an increase in long-term borrowed funds costs largely related to our issuance of subordinated debt.

Total borrowed funds rates declined to 1.51% in 2014 from 6.53% in 2013. Within the federal funds purchased and securities sold under agreement category and other short-term borrowed funds categories, pay-fixed swap expense declined to $99 million in 2014 from $200 million in 2013. Excluding the impact of hedging costs, 2014 borrowed funds costs were 0.78% compared to 1.16% in 2013.

Noninterest Income

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

	Year Ended December 31,			
(dollars in millions)	2014	2013	Change	Percent
Service charges and fees	$574	$640	($66)	(10%)
Card fees	233	234	(1)	—
Mortgage banking fees	71	153	(82)	(54)
Trust and investment services fees	158	149	9	6
Foreign exchange and trade finance fees	95	97	(2)	(2)
Capital markets fees	91	53	38	72
Bank-owned life insurance income	49	50	(1)	(2)
Securities gains, net	28	144	(116)	(81)
Other income [1]	379	112	267	238
Noninterest income	$1,678	$1,632	$46	3%

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

Noninterest income of $1.7 billion in 2014 increased $46 million, or 3%, from $1.6 billion in 2013, driven by a $288 million pre-tax gain on the Chicago Divestiture, which was recorded in other income, and a $38 million increase in capital markets fees, partially offset by a $116 million decrease in net securities gains, an $82 million decrease in mortgage banking fees, and a $66 million decrease in service charges and fees. Mortgage banking fees reflected overall lower origination volume, the decision to hold more loans on-balance sheet, and were also negatively impacted by a reduction in the recovery of mortgage servicing rights valuations from the prior year. The decrease in service charges and fees are driven by lower personal overdraft fees resulting from a November 2013 change to our check-posting methodology.

Provision for Credit Losses

Provision for credit losses of $319 million in 2014 decreased $160 million from $479 million in 2013, driven by a $178 million reduction in net charge-offs. Additionally, while overall credit quality continued to improve in 2014, the rate of improvement slowed relative to 2013. As a result, 2014 provision for credit losses included a release of $4 million from the allowance for credit losses (the amount by which net charge-offs exceeded the provision) compared with a release of $22 million in 2013. The provision for loan and lease losses is the result of a detailed analysis performed to estimate an appropriate and adequate ALLL. The total provision for credit losses included the provision for loan and lease losses as well as the provision for unfunded commitments. Refer to "—Analysis of Financial Condition — Allowance for Credit Losses and Nonperforming Assets" for more information.

Noninterest Expense

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

	Year Ended December 31,			
(dollars in millions)	2014	2013	Change	Percent
Salaries and employee benefits	$1,678	$1,652	$26	2%
Outside services	420	360	60	17
Occupancy	326	327	(1)	—
Equipment expense	250	275	(25)	(9)
Amortization of software	145	102	43	42
Goodwill impairment	—	4,435	(4,435)	(100)
Other operating expense	573	528	45	9
Noninterest expense	$3,392	$7,679	($4,287)	(56%)

Noninterest expense of $3.4 billion in 2014 decreased $4.3 billion from 2013, which included a $4.4 billion pre-tax goodwill impairment charge. Our 2014 noninterest expense included $169 million of pre-tax restructuring charges and special items largely related to our separation from RBS as well as ongoing efforts to improve processes and enhance efficiencies across the organization compared with $26 million of restructuring charges and special items in 2013. The 2014 charge included $78 million in outside services, $44 million in salaries and employee benefits, $16 million in occupancy, $6 million in software, $4 million in equipment and $21 million in other operating expense. Excluding the restructuring charges and special items and the goodwill impairment, noninterest expense remained relatively stable, as the benefit of our efficiency initiatives helped offset investment in the business to drive future earnings growth as well as higher regulatory costs. See Note 22 "Exit Costs and Restructuring Reserves" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Provision (Benefit) for Income Taxes

In 2014, we recorded income tax expense of $403 million, compared to an income tax benefit of $42 million in 2013. The effective tax rates for the years ended December 31, 2014 and 2013 were 31.8% and 1.2%, respectively. The increase in the effective rate largely reflected the tax rate impact of the goodwill impairment charge taken in 2013. Goodwill not deductible for tax purposes accounted for 78.4% of the total goodwill impairment charge and generated a reduction of 35.1% in our effective tax rate for the year ended December 31, 2013.

At December 31, 2014, we reported a net deferred tax liability of $493 million, compared to a $199 million liability at December 31, 2013. The increase in the net deferred tax liability was attributable to the utilization of net operating loss and tax credit carryforwards of $76 million (which decreased the deferred tax asset), a decrease in the tax effect on OCI of $153 million (which also decreased the deferred tax asset) and an increase in the deferred tax liability related to temporary differences of $65 million. For further discussion, see Note 15 “Income Taxes” to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Business Segments

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

	As of and for the Year Ended December 31, 2014			
(dollars in millions)	Consumer Banking	Commercial Banking	Other [4]	Consolidated
Net interest income	$2,151	$1,073	$77	$3,301
Noninterest income	899	429	350	1,678
Total revenue	3,050	1,502	427	4,979
Noninterest expense	2,513	652	227	3,392
Profit before provision for credit losses	537	850	200	1,587
Provision for credit losses	259	(6)	66	319
Income before income tax expense	278	856	134	1,268
Income tax expense	96	295	12	403
Net income	$182	$561	$122	$865
Loans and leases and loans held for sale (year-end) [1]	$49,919	$39,861	$3,911	$93,691
Average Balances:				
Total assets	$48,939	$38,483	$40,202	$127,624
Loans and leases and loans held for sale [1]	47,745	37,683	4,316	89,744
Deposits and deposits held for sale	68,214	19,838	4,513	92,565
Interest-earning assets	47,777	37,809	30,601	116,187
Key Metrics				
Net interest margin	4.50 %	2.84 %	NM	2.83 %
Efficiency ratio [2]	82.39	43.37	NM	68.12
Average loans to average deposits ratio	69.99	189.96	NM	96.95
Return on average total tangible assets [2]	0.37	1.46	NM	0.71
Return on average tangible common equity [2] [3]	3.90	13.43	NM	6.71

[1] Loans held for sale refer to mortgage loans held for sale recorded in the Consumer Banking segment, as well as the loans relating to the Chicago Divestiture, which were recorded in both the Consumer Banking and Commercial Banking segments.

[2] These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see “—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures.”

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

[4] Includes the financial impact of non-core, liquidating loan portfolios and other non-core assets, our treasury activities, wholesale funding activities, securities portfolio, community development assets and other unallocated assets, liabilities, revenues, provision for credit losses and expenses not attributed to our Consumer Banking or Commercial Banking segments. For a description of non-core assets, see “—Analysis of Financial Condition — December 31, 2015 Compared with December 31, 2014 — Loans and Leases-Non-Core Assets.”

We operate our business through two operating segments: Consumer Banking and Commercial Banking. Segment results are derived from our business line profitability reporting systems by specifically attributing managed assets, liabilities, capital and their related revenues, provision for credit losses and expenses. Residual assets, liabilities, capital and their related revenues, provision for credit losses and expenses are attributed to Other.

Other includes our treasury function, securities portfolio, wholesale funding activities, goodwill and goodwill impairment, community development assets and other unallocated assets, liabilities, capital, revenues, provision for credit losses and expenses not attributed to Consumer Banking or Commercial Banking. Other also includes our non-core assets. Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. The non-core portfolio totaled $3.1 billion as of December 31, 2014, down 19% from December 31, 2013. The largest component of our non-core portfolio is our home equity products currently or formerly serviced by others portfolio.

Our capital levels are evaluated and managed centrally; however, capital is allocated to the operating segments to support evaluation of business performance. Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for common equity Tier 1 and then allocate that approximation to the segments based on economic capital. Interest income and expense is determined based on the assets and liabilities managed by the business segment. Because funding and asset liability management is a central function, funds transfer-pricing methodologies are utilized to allocate a cost of funds used, or credit for the funds provided, to all business segment assets, liabilities and capital, respectively, using a matched funding concept. The residual effect on net interest income of asset/liability management, including the residual net interest income related to the funds transfer pricing process, is included in Other.

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

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

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

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

Consumer Banking

	As of and for the Year Ended December 31,			
(dollars in millions)	2014	2013	Change	Percent
Net interest income	$2,151	$2,176	($25)	(1%)
Noninterest income	899	1,025	(126)	(12)
Total revenue	3,050	3,201	(151)	(5)
Noninterest expense	2,513	2,522	(9)	—
Profit before provision for credit losses	537	679	(142)	(21)
Provision for credit losses	259	308	(49)	(16)
Income before income tax expense	278	371	(93)	(25)
Income tax expense	96	129	(33)	(26)
Net income	$182	$242	($60)	(25)
Loans and leases and loans held for sale (year-end) [1]	$49,919	$45,019	$4,900	11
Average Balances:				
Total assets	$48,939	$46,465	$2,474	5
Loans and leases and loans held for sale [1]	47,745	45,106	2,639	6
Deposits and deposits held for sale	68,214	72,158	(3,944)	(5)
Interest-earning assets	47,777	45,135	2,642	6%
Key Metrics				
Net interest margin	4.50%	4.82%	(32) bps	—
Efficiency ratio [2]	82.39	78.76	363 bps	—
Average loans to average deposits ratio	69.99	62.51	748 bps	—
Return on average total tangible assets [2]	0.37	0.52	(15) bps	—
Return on average tangible common equity [2] [3]	3.90	5.48	(158) bps	—

[1] Loans held for sale include mortgage loans held for sale and loans relating to the Chicago Divestiture.
[2] These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see "—Principal Components of Operations and Key Performance Metrics Used By Management — Key

Performance Metrics and Non-GAAP Financial Measures."
(3) Operating segments are allocated capital on a risk-adjusted basis considering economic and regulatory capital requirements. We approximate that regulatory capital is equivalent to a sustainable target level for CET1 and then allocate that approximation to the segments based on economic capital.

Consumer Banking segment net income of $182 million in 2014 decreased $60 million, or 25%, from $242 million in 2013, as the benefit of a reduction in provision for credit losses was more than offset by lower revenue, driven by overall mortgage banking headwinds, and lower service charges and fee income.

Total revenue was $3.1 billion in 2014, down $151 million, or 5%, from $3.2 billion in 2013. Net interest income of $2.2 billion in 2014 remained broadly stable with the prior year, as the benefit of lower deposit costs and loan growth was more than offset by the effect of the relatively persistent low-rate environment and the Chicago Divestiture. Loan growth reflected higher residential mortgage and auto loan outstandings, partially offset by lower home equity outstandings. Noninterest income of $899 million decreased $126 million, or 12%, from $1.0 billion in 2013, driven by lower mortgage banking fees, service charges and fees, and the impact of the Chicago Divestiture, partially offset by growth in trust and investment services fees and a gain on sale of discontinued student loan portfolio.

Mortgage banking fees of $71 million in 2014 decreased $82 million, driven by overall lower origination volume and the decision to hold more loans on-balance sheet. Mortgage banking fees were also negatively impacted by a reduction in the recovery of mortgage servicing rights valuations from the prior year. Service charges and fees of $416 million decreased $58 million, or 12%, from 2013, driven by the impact of a change in check-posting order as well as the Chicago Divestiture. Results also reflected the benefit of growth in trust and investment services fees as well as a $9 million gain on sale of student loans.

Noninterest expense of $2.5 billion in 2014 remained relatively stable with the prior year as the benefit of our efficiency initiatives and the impact of the Chicago Divestiture were offset by continued investment in the business to drive future growth.

Provision for credit losses of $259 million in 2014 decreased $49 million, or 16%, from $308 million in 2013, reflecting improved credit quality.

Commercial Banking

(dollars in millions)	As of and for the Year Ended December 31, 2014	2013	Change	Percent
Net interest income	$1,073	$1,031	$42	4 %
Noninterest income	429	389	40	10
Total revenue	1,502	1,420	82	6
Noninterest expense	652	635	17	3
Profit before provision for credit losses	850	785	65	8
Provision for credit losses	(6)	(7)	1	14
Income before income tax expense	856	792	64	8
Income tax expense	295	278	17	6
Net income	$561	$514	$47	9
Loans and leases and loans held for sale (year-end) (1)	$39,861	$36,155	$3,706	10
Average Balances:				
Total assets	$38,483	$35,229	$3,254	9
Loans and leases and loans held for sale (1)	37,683	34,647	3,036	9
Deposits and deposits held for sale	19,838	17,516	2,322	13
Interest-earning assets	37,809	34,771	3,038	9 %
Key Metrics				
Net interest margin	2.84 %	2.97 %	(13) bps	—
Efficiency ratio (2)	43.37	44.66	(129) bps	—
Average loans to average deposits ratio	189.96	197.80	(784) bps	—
Return on average total tangible assets (2)	1.46	1.46	— bps	—
Return on average tangible common equity (2) (3)	13.43	13.20	23 bps	—

(1) Loans held for sale include loans relating to the Chicago Divestiture.

(2) These are non-GAAP financial measures. For more information on the computation of these non-GAAP financial measures, see "—Principal Components of Operations and Key Performance Metrics Used By Management — Key Performance Metrics and Non-GAAP Financial Measures."

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

Commercial Banking net income of $561 million in 2014 increased $47 million, or 9%, from $514 million in 2013, driven by an $82 million increase in total revenue, partially offset by higher expenses and slightly lower credit net recoveries.

Net interest income of $1.1 billion in 2014 increased $42 million, or 4%, from $1.0 billion in 2013, largely due to a $3.0 billion increase in interest-earning assets and a $2.3 billion increase in customer deposits which was partially offset by continued downward pressure on loan yields given the relatively persistent low-rate environment and increased industry-wide competition.

Noninterest income of $429 million in 2014 increased $40 million, or 10%, from $389 million in 2013, as a $51 million increase in leasing income and capital markets fees was partially offset by lower interest rate product, foreign exchange and trade finance fees.

Noninterest expense of $652 million in 2014 increased $17 million from $635 million in 2013.

Provision for credit losses in 2014 reflected a net recovery on prior period charge-offs of $6 million compared with a net recovery of $7 million in 2013.

Other

	As of and for the Year Ended December 31,			
(dollars in millions)	2014	2013	Change	Percent
Net interest income (expense)	$77	($149)	$226	152%
Noninterest income	350	218	132	61
Total revenue	427	69	358	519
Noninterest expense	227	4,522	(4,295)	(95)
Profit (loss) before provision for credit losses	200	(4,453)	4,653	104
Provision for credit losses	66	178	(112)	(63)
Income (loss) before income tax expense (benefit)	134	(4,631)	4,765	103
Income tax expense (benefit)	12	(449)	461	103
Net income (loss)	$122	($4,182)	$4,304	103
Loans and leases and loans held for sale (year-end)	$3,911	$5,939	($2,028)	(34)
Average Balances:				
Total assets	$40,202	$39,172	$1,030	3
Loans and leases and loans held for sale	4,316	6,044	(1,728)	(29)
Deposits and deposits held for sale	4,512	3,662	851	23
Interest-earning assets	30,601	27,243	3,358	12%

Other recorded net income of $122 million in 2014 compared with a net loss of $4.2 billion in 2013, which included an after-tax goodwill impairment charge of $4.1 billion. Excluding the goodwill impairment, the net loss in 2013 was $102 million. Net income in 2014 included a $180 million after-tax gain related to the Chicago Divestiture, partially offset by $105 million of after-tax restructuring charges and special items. Net loss in 2013 also included $17 million of after-tax restructuring charges and special items. Excluding these items, net income increased $132 million driven by higher net interest income as well as lower provision for credit losses, partially offset by lower noninterest income.

Net interest income in 2014 increased $226 million to $77 million compared to an expense of $149 million in 2013. The increase was driven by the benefit of a $5.1 billion increase in average investment securities, a reduction in interest rate swap costs, and an increase in residual net interest income related to funds transfer pricing, partially offset by higher wholesale funding costs, and a $1.3 billion decrease in average non-core loan balances.

Noninterest income in 2014 increased $132 million driven by the $288 million pre-tax gain on the Chicago Divestiture. Excluding the gain, noninterest income decreased $156 million driven by a $116 million reduction in securities gains and higher net losses on low-income housing investments, which are more than offset by increased tax credits.

Noninterest expense in 2014 of $227 million included $169 million of pre-tax restructuring charges and special items and decreased $4.3 billion from 2013, which included the $4.4 billion pre-tax goodwill impairment charge, and $26 million of pre-tax restructuring charges and special items. Excluding the goodwill impairment, restructuring charges and special items, noninterest expense decreased $3 million largely reflecting lower costs related to the non-core loan portfolio, largely offset by higher employee incentive costs. For further information about these special items, including expected additional future costs, see Note 22 "Exit Costs and Restructuring Reserves" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

The provision for credit losses within Other mainly represents the residual change in the consolidated allowance for credit losses after attributing the respective net charge-offs to the Consumer Banking and Commercial Banking segments. It also includes net charge-offs related to the non-core portfolio. The provision for credit losses in 2014 decreased $112 million to $66 million compared to $178 million in 2013, reflecting continued improvement in credit quality and decreased non-core net charge-offs of $128 million. On a quarterly basis, we review and refine our estimate of the allowance for credit losses, taking into consideration changes in portfolio size and composition, historical loss experience, internal risk ratings, current economic conditions, industry performance trends and other pertinent information. In 2014, changes in these factors led to a net release of $4 million in the allowance for credit losses compared with a net release of $22 million in 2013. The provision also reflected an increase in overall credit exposure associated with growth in our loan portfolio.

Total assets as of December 31, 2014 included $2.1 billion and $4.7 billion of goodwill related to the Consumer Banking and Commercial Banking reporting units, respectively. For further information regarding the reconciliation of segment results to GAAP results, see Note 24 “Business Segments” to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

Analysis of Financial Condition — December 31, 2015 Compared with December 31, 2014

Loans and Leases

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

	December 31,			
(dollars in millions)	2015	2014	Change	Percent
Commercial	$33,264	$31,431	$1,833	6 %
Commercial real estate	8,971	7,809	1,162	15
Leases	3,979	3,986	(7)	—
Total commercial	46,214	43,226	2,988	7
Residential mortgages	13,318	11,832	1,486	13
Home equity loans	2,557	3,424	(867)	(25)
Home equity lines of credit	14,674	15,423	(749)	(5)
Home equity loans serviced by others [1]	986	1,228	(242)	(20)
Home equity lines of credit serviced by others [1]	389	550	(161)	(29)
Automobile	13,828	12,706	1,122	9
Student	4,359	2,256	2,103	93
Credit cards	1,634	1,693	(59)	(3)
Other retail	1,083	1,072	11	1
Total retail	52,828	50,184	2,644	5
Total loans and leases [2] [3]	$99,042	$93,410	$5,632	6 %

(1) Our SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. We now service a portion of this portfolio internally.

(2) Excluded from the table above are loans held for sale totaling $365 million and $281 million as of December 31, 2015 and 2014, respectively.

(3) Mortgage loans serviced for others by our subsidiaries are not included above, and amounted to $17.6 billion and $17.9 billion at December 31, 2015 and 2014, respectively.

Our loans and leases are disclosed in portfolio segments and classes. Our loan and lease portfolio segments are commercial and retail. The classes of loans and leases are: commercial, commercial real estate, leases, residential mortgages, home equity loans, home equity lines of credit, home equity loans serviced by others, home equity lines of credit serviced by others, automobile, student, credit cards and other retail.

Total loans and leases of $99.0 billion as of December 31, 2015, increased $5.6 billion, or 6%, from $93.4 billion as of December 31, 2014, reflecting growth in retail and commercial. Total commercial loans and leases of $46.2 billion grew $3.0 billion, or 7%, from $43.2 billion as of December 31, 2014, reflecting commercial loan growth of $1.8 billion and growth in commercial real estate of $1.2 billion. Total retail loans of $52.8 billion increased $2.6 billion, or 5%, from $50.2 billion as of December 31, 2014, as a $2.1 billion increase in student, a $1.5 billion increase in residential mortgages, and a $1.1 billion increase in auto, were partially offset by lower home equity balances, including continued run off in the non-core portfolio.

The effect of loan purchases and sales in 2015, net of run off of previously purchased loans, increased year-end loans by $1.2 billion. See Note 4 "Loans and Leases" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report, for further information.

Non-Core Assets

The table below shows the composition of our non-core assets as of the dates indicated:

(dollars in millions)	December 31, 2015	December 31, 2014	(Date of Designation) June 30, 2009	Change from 2015-2014	Change from 2015-2009
Commercial	$38	$68	$1,900	(44 %)	(98 %)
Commercial real estate	130	216	3,412	(40)	(96)
Total commercial	168	284	5,312	(41)	(97)
Residential mortgages	297	365	1,467	(19)	(80)
Home equity loans	69	118	384	(42)	(82)
Home equity lines of credit	74	121	231	(39)	(68)
Home equity loans serviced by others [1]	986	1,228	4,591	(20)	(79)
Home equity lines of credit serviced by others [1]	389	550	1,589	(29)	(76)
Automobile	—	—	769	—	(100)
Student	329	369	1,495	(11)	(78)
Credit cards	—	—	995	—	(100)
Other retail	—	—	3,268	—	(100)
Total retail	2,144	2,751	14,789	(22)	(86)
Total non-core loans	2,312	3,035	20,101	(24)	(88)
Other assets	26	65	378	(60)	(93)
Total non-core assets	$2,338	$3,100	$20,479	(25 %)	(89 %)

[1] Our SBO portfolio consists of purchased home equity loans and lines that were originally serviced by others. We now service a portion of this portfolio internally.

Non-core assets are primarily loans inconsistent with our strategic goals, generally as a result of geographic location, industry, product type or risk level. Non-core assets totaled $2.3 billion as of December 31, 2015. We have actively managed these loans down since they were designated as non-core on June 30, 2009. Between that time and December 31, 2015, the portfolio decreased $18.1 billion, including principal repayments of $10.1 billion; charge-offs of $3.9 billion; transfers back to the core portfolio of $2.8 billion; and sales of $1.3 billion. Transfers from non-core back to core were handled on an individual-request basis and managed through our chief credit officer.

Non-core assets totaled $2.3 billion as of December 31, 2015, down 25% from December 31, 2014, driven by principal repayments of $696 million. Commercial non-core loan balances declined 41% compared to December 31, 2014, ending at $168 million compared to $284 million at December 31, 2014. Retail non-core loan balances of $2.1 billion decreased $607 million, or 22%, compared to December 31, 2014.

The largest component of our non-core portfolio is the home equity SBO portfolio. The SBO portfolio is a liquidating portfolio consisting of pools of home equity loans and lines of credit purchased between 2003 and 2007. Although our SBO portfolio consists of loans that were initially serviced by others, we now service a portion of this portfolio internally. SBO balances serviced externally totaled $763 million and $1.1 billion as of December 31, 2015 and 2014, respectively. The SBO portfolio has been closed to new purchases since the third quarter of 2007, with exposure down to $1.4 billion as of December 31, 2015, compared to $1.8 billion as of December 31, 2014. The SBO portfolio represented 4% of the retail real estate secured portfolio and 3% of the overall retail loan portfolio as of December 31, 2015.

The credit profile of the SBO portfolio was weaker than the core real estate portfolio, with a weighted-average refreshed FICO score of 712 and CLTV of 90% as of December 31, 2015. The proportion of the portfolio in a second lien (subordinated) position was 96% with 72% of the portfolio in out-of-footprint geographies including 28% in

California, Nevada, Arizona and Florida.

SBO credit performance continued to improve in 2015 driven by continued portfolio liquidation (the weakest performing loans have already been charged off), more effective account servicing and collection strategies, and improvements in the real estate market. SBO portfolio year-to-date net charge-offs of $20.2 million, or 1.3% annualized, as of December 31, 2015 improved 82 basis points from 2.1% for the full year 2014.

Allowance for Credit Losses and Nonperforming Assets

We and our banking subsidiaries, CBNA and CBPA, maintain an allowance for credit losses, consisting of an ALLL and a reserve for unfunded lending commitments. This allowance is created through charges to income, or provision for credit losses, and is maintained at an appropriate level adequate to absorb anticipated losses and is determined in accordance with GAAP. For further information on our processes to determine our allowance for credit losses, see "—Critical Accounting Estimates — Allowance for Credit Losses," Note 1 "Significant Accounting Policies" and Note 5 "Allowance for Credit Losses, Nonperforming Assets, and Concentrations of Credit Risk" to our audited Consolidated Financial Statements in Part II, Item 8 — Financial Statements and Supplementary Data, included elsewhere in this report.

The allowance for credit losses totaled $1.3 billion at December 31, 2015 and 2014, respectively. Our ALLL was 1.23% of total loans and leases and 115% of nonperforming loans and leases as of December 31, 2015 compared with 1.28% and 109% as of December 31, 2014.

Overall, loan portfolio credit quality continued to improve across many measures in the year ended December 31, 2015; however, as expected, the rate of improvement began to level off in the second half of 2015 as credit trends continued to normalize from lower levels. As such, we expect asset quality trends to continue to normalize in the future. Net charge-offs for the year ended December 31, 2015 of $284 million decreased 12% compared to $323 million for the year ended December 31, 2014. The portfolio annualized net charge-off rate declined to 0.30% for the year ended December 31, 2015 from 0.36% for the year ended December 31, 2014. The 90 day or more past due delinquency rate was 0.9% as of December 31, 2015 and 2014. Nonperforming loans and leases totaled $1.1 billion, or 1.07%, of the total portfolio as of December 31, 2015 and $1.1 billion, or 1.18% in December 31, 2014. At December 31, 2015, $742 million of nonperforming loans and leases had been designated as impaired and had no specific ALLL because they had been written down to the fair value of their collateral. These impaired loans included $672 million of retail loans and $70 million of commercial loans.

Commercial Loan Asset Quality

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

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

As of December 31, 2015, nonperforming commercial loans and leases decreased $16 million, or 10%, to $148 million, compared to $164 million as of December 31, 2014, driven by a 38% decline in commercial nonperforming loans. As of December 31, 2015, total commercial nonperforming loans stood at 0.3% of the commercial loan portfolio, compared to 0.4% as of December 31, 2014. Net charge-offs in our total commercial loan and lease portfolio for the year ended December 31, 2015 reflected a net recovery of $13 million compared to a net recovery of $15 million for the year ended December 31, 2014. See "—Key Factors Affecting Our Business — Credit Trends" for further details.

Notwithstanding the improvement in nonperforming loans and leases, during the year ended December 31, 2015, total criticized loans and leases in the total commercial loan and lease portfolio, including commercial real estate loans, increased to $2.6 billion, or 5.6% of the portfolio compared to $1.9 billion, or 4.5%, at December 31, 2014. Commercial loan criticized balances increased to $2.0 billion, or 6.0%, of the commercial loan portfolio compared to $1.4 billion, or 4.5%, as of December 31, 2014, driven by a $331 million increase in the oil and gas industry portfolio, with most of the commercial loan criticized balance increase occurring in fourth quarter 2015. Commercial real estate criticized balances increased to $521 million, or 5.8%, of the commercial real estate portfolio compared to $455 million, or 5.8%, as of December 31, 2014. Commercial loans accounted for 76% of criticized loans as of December 31, 2015, compared to 73% as of December 31, 2014. Commercial real estate accounted for 20% of criticized loans as of December 31, 2015, compared to 24% as of December 31, 2014.

Retail Loan Asset Quality

For retail loans, we primarily use the loan's payment and delinquency status to monitor credit quality. The longer a loan is past due, the greater the likelihood of future credit loss. These credit quality indicators are continually updated and monitored. Our retail loan portfolio remains focused on lending across the New England, Mid-Atlantic and Midwest regions, with continued geographic expansion outside the footprint primarily in the auto finance and student lending portfolios. Retail assets increased to $52.8 billion as of December 31, 2015, a 5% increase from December 31, 2014, driven by growth in the student lending, residential mortgage and auto finance portfolio, offset by a reduction in home equity balances, including run off in the non-core portfolio.

The credit composition of our retail loan portfolio at December 31, 2015 remained favorable and well-positioned across all product lines with an average refreshed FICO score of 757, an improvement of 2 points from December 31, 2014. Our real estate CLTV ratio is calculated as the mortgage and second lien loan balance divided by the appraised value of the property and was 63.6% as of December 31, 2015 compared to 65.4% as of December 31, 2014. Excluding the SBO portfolio, the real estate CLTV was 62.3% as of December 31, 2015 compared to 63.8% as of December 31, 2014. Asset quality is improving with a net charge-off rate (core and non-core) of 0.58% for the year ended December 31, 2015, a decrease of 12 basis points from the year ended December 31, 2014.
Nonperforming retail loans as a percentage of total retail loans were 1.7% as of December 31, 2015, a 14 basis point decrease from December 31, 2014. Retail nonaccrual loans of $904 million at December 31, 2015 decreased $26 million from $930 million at December 31, 2014, reflecting lower mortgage and home equity portfolios, partially offset by increases in the student lending and auto finance portfolios.

Special Topics-HELOC Payment Shock

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

Troubled Debt Restructuring

TDR is the classification given to a loan that has been restructured in a manner that grants a concession, that we would not otherwise make, to a borrower that is experiencing financial hardship. TDRs typically result from our loss mitigation efforts and are undertaken in order to improve the likelihood of recovery and continuity of the relationship. Our loan modifications are handled on a case by case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet our borrower's financial needs. The types of concessions include interest rate reductions, term extensions, principal forgiveness and other modifications to the structure of the loan that fall outside our lending policy. Depending on the specific facts and circumstances of the customer, restructuring can involve loans moving to nonaccrual, remaining on nonaccrual or continuing on accrual status. As of December 31, 2015 and 2014, we classified $1.2 billion as retail TDRs. In the retail TDR population, $379 million were in nonaccrual status of which 51% were current in payment. TDRs generally return to accrual status once repayment capacity and appropriate payment history can be established. TDRs are evaluated for impairment individually. Loans are classified as TDRs until paid off, sold or refinanced at market terms.

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

The table below presents an aging of our retail TDRs:

	December 31, 2015			
(in millions)	Current	30-89 Days Past Due	90+ Days Past Due	Total
Recorded Investment:				
Residential mortgages				